UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)
☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-36903

KORNIT DIGITAL LTD.
(Exact name of Registrant as specified in its charter)

Israel
(Jurisdiction of incorporation or organization)

12 Ha'Amal St.
Rosh-Ha'Ayin 4809246, Israel
(Address of principal executive offices)

Alon Rozner, Chief Financial Officer
Kornit Digital Ltd.
12 Ha'Amal St.
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary shares, par value NIS 0.01 per share	**KRNT**	**The Nasdaq Stock Market LLC**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

49,619,782 ordinary shares, par value NIS 0.01 per share, as of December 31, 2021

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

☒ **Yes** ☐ **No**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ **Yes** ☒ **No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ **Yes** ☐ **No**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ **Yes** ☐ **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer: ☒	Accelerated filer: ☐	Non-accelerated filer: ☐ Emerging growth company: ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☒ U.S. GAAP	☐ International Financial Reporting Standards as issued by the International Accounting Standards Board	☐ Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ **Yes** ☒ **No**

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this annual report on Form 20-F may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often characterized by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “continue,” “believe,” “should,” “intend,” “project” or other similar words, but are not the only way these statements are identified.

These forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, statements that contain projections of results of operations or of financial condition and all statements (other than statements of historical facts) that address activities, events or developments that we expect, project, believe, anticipate, intend or project will or may occur in the future. The statements that we make regarding the following matters are forward-looking by their nature:

- our plans to develop, introduce and sell new or improved products and product enhancements, including specifically our Poly Pro and Presto products;
- our expectations regarding the expansion of our serviceable addressable market;
- our expectations regarding our future gross margins and operating expenses;
- our expectations regarding our growth and overall profitability;
- our expectations concerning sales to, and revenues to be generated from, significant customers, including Amazon;
- our expectations regarding the impact of variability on our future revenues;
- our expectations regarding drivers of our future growth, including anticipated sales growth, penetration of new markets, and expansion of our customer base;
- our plans to continue our expansion into new product markets;
- our plans regarding our distribution strategy for our products;
- our goals with respect to the environmental impact of our operations and products;
- our expectations concerning competition;
- our expectations regarding the success of our new products and systems;
- the expected impact of new accounting pronouncements on our results of operations;
- the impact of government laws and regulations;
- our expectations regarding our anticipated cash requirements for the next 12 months;
- our plans to expand our international operations;
- our plans to file and procure additional patents relating to our intellectual property rights and the adequate protection of these rights;
- our plans to pursue strategic acquisitions or invest in complementary companies, products or technologies and our expectations as to the success of those acquisitions and investments; and
- our expectations concerning our access to financing to support the expansion of our operations;
- our expectations regarding the further duration of the global COVID-19 pandemic and its impact on our operations, financial position and cash flows, and those of our customers and suppliers.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the risks described in “ITEM 3.D. Risk Factors” and the additional information contained in “ITEM 4 Information on the Company” and “ITEM 5. Operating and Financial Review and Prospects.”

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur.

USE OF TRADE NAMES

Throughout this annual report, we refer to various trademarks, service marks and trade names that we use in our business. “Kornit Digital”, the “K” logo and other trademarks or service marks of Kornit Digital Ltd. appearing in this annual report are the property of Kornit Digital Ltd. We have several other registered trademarks, service marks and pending applications relating to our solutions. Although we have omitted the “®” and “™” trademark designations for such marks in this annual report, all rights to such trademarks are nevertheless reserved. Other trademarks and service marks appearing in this annual report are the property of their respective holders. We do not intend our use or display of other companies’ tradenames, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

CERTAIN ADDITIONAL TERMS AND CONVENTIONS

In this annual report, unless the context otherwise requires:

- references to “Kornit,” “Kornit Digital,” “our company,” “the Company,” “the registrant,” “we,” “us,” and “our” refer to Kornit Digital Ltd.;
- references to “ordinary shares”, “our shares” and similar expressions refer to the Company’s ordinary shares, par value NIS 0.01 per share;
- references to “dollars”, “U.S. dollars”, “U.S. $” and “$” are to United States Dollars;
- references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;
- references to “GAAP” are to U.S. Generally Accepted Accounting Principles;
- references to our “articles” are to our Articles of Association, as amended;
- references to the “Companies Law” are to the Israeli Companies Law, 5759-1999, as amended;
- references to the “Securities Act” are to the U.S. Securities Act of 1933, as amended;
- references to the “Exchange Act” are to the U.S. Securities Exchange Act of 1934, as amended;
- references to “Nasdaq” are to the Nasdaq Stock Market; and
- references to the “SEC” are to the United States Securities and Exchange Commission.

PART I

ITEM 1. <u>Identity of Directors, Senior Management and Advisers</u>.

Not Applicable.

ITEM 2. <u>Offer Statistics and Expected Timetable</u>.

Not Applicable.

ITEM 3. <u>Key Information</u>.

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business involves a high degree of risk. Please carefully consider the risks we describe below in addition to the other information set forth in this annual report and in our other filings with the SEC. These risks could materially and adversely affect our business, financial condition and results of operations. See "Cautionary Note Regarding Forward-Looking Statements."

Risk Factors Summary

The following is a summary of the principal risks that could materially adversely affect our business, results of operations, and financial condition, all of which are more fully described below. This summary should be read in conjunction with the other information discussed in this Item 3.D, and should not be relied upon as an exhaustive summary of the material risks facing our business. Please carefully consider all of the information discussed in this Item 3.D. "Risk Factors" and elsewhere in this annual report for a more thorough description of these and other risks.

Summary of Risks Related to Our Business and Our Industry

- Our success is dependent on adoption of digital textile printing in place of existing methods of printing.
- We are dependent on our ability to timely introduce new products that are accepted by the market and increase our market share.
- We face increased competition from a wide variety of market participants.
- Our significant reliance on large number of customers, including Amazon.
- Our significant reliance on suppliers, including single-source suppliers, coupled with global supply chain delays, and our reliance on third-party manufacturers.
- The scrutiny that may be applied to sustainability practices of companies such as ours.
- We may not be able to successfully acquire and integrate other companies and technologies, necessary for our growth, and to finance such acquisitions.
- Our expanding international operations are accompanied by costs, operational risks and required regulatory compliance in many jurisdictions.
- We may be unable to continue to utilize tax benefits and avoid significant tax liabilities.

Summary of Risks Related to Intellectual Property

- We may be unable to protect our patents and trademarks from infringement, and avoid infringing the intellectual property rights of others.

Summary of Risks Related to Our Ordinary Shares

- Volatility of our share price.

- Increased costs as a public company as a result of new compliance initiatives.

Summary of Risks Related to Our Operations in Israel

- Israeli government tax benefits we receive may be terminated if we cease to qualify for them.

- Terms of our Israeli research and development grants restrict our ability to transfer manufacturing operations or technology outside of Israel.

Risks Related to Our Business and Our Industry

If the market for digital textile printing does not develop as we anticipate, our sales may not grow as quickly as expected and our share price could decline.

The global printed textile industry is currently dominated by analog printing processes, the most common of which are screen printing and carousel printing. If, among other developments, the global printed textile industry does not more broadly accept digital printing as an alternative to analog printing, our revenues may not continue to grow, or may decline, and our share price could suffer. Widespread adoption of digital textile printing depends on, among other things, the willingness and ability of businesses in the printed textile industry to replace their existing analog printing systems with digital printing systems. These businesses may decide that digital printing processes are less reliable, less cost-effective, of lower quality, or otherwise less suitable for their commercial needs than analog printing processes. For example, screen printing currently tends to be faster and less expensive than digital printing on a cost per print basis for larger production runs. Even if businesses are persuaded as to the benefits of digital printing, we do not know whether potential buyers of digital printing systems will delay their investment decisions. As a result, we may not correctly estimate demand for our solutions, which could cause us to fail to meet customer needs in a timely manner or fail to take advantage of economies of scale in the production of our solutions.

Our results of operations will be adversely impacted by our failure to timely introduce new products, or to achieve market acceptance or gain adequate market share for new or existing products.

Our ability to develop innovative new systems and products is important to our business strategy and competitive position. Difficulties or delays in research, development, production or commercialization of new systems and products could adversely impact our sales and competitive position. Over the course of 2021, we introduced KornitX, our cloud-based software platform, in May 2021 and Presto MAX, the printing system that serves as our single-step solution for direct-to-fabric printing, and which is compatible with the KornitX global fulfillment ecosystem, in October 2021. We cannot ensure that the significant investments that we have made in distribution, sales and customer service teams to launch these and other new platforms and systems will enable us to successfully market, sell and distribute them as planned. Market acceptance of our new systems and related products will depend on, among other things, the systems demonstrating a real advantage over existing systems, the success of our sales and marketing teams in creating awareness of the systems, the sales price and the return on investment of the systems relative to alternative systems, customer recognition of the value of our technology, the effectiveness of our marketing campaigns, and the general willingness of potential customers to try new technologies. If we fail to develop and launch new systems and products, experience cost overruns in connection with such development, or the market does not accept our new systems and products, our business, results of operations and financial condition would be adversely affected. Even if we are successful in selling our new systems which provide greater efficiency and lower cost per print, sales of ink and other consumables per system may decrease, which may adversely affect our results of operations, including gross margin and overall profitability.

If our customers use alternative ink and consumables and/or alternative spare parts in our systems, our gross margin could decline significantly, and our business could be harmed.

Our business model benefits significantly from recurring sales of our ink and other consumables and spare parts for our existing and growing installed base of systems. Third parties could try to sell, and purchasers of our systems can seek to buy, alternative versions of our ink and other consumables or alternative spare parts. We have encountered limited instances of these activities by third parties in specific regions. Third-party ink and other consumables and spare parts might be less expensive or otherwise more appealing to our customers than our ink and other consumables. Significant sales of third-party inks and other consumables and spare parts to our customers could adversely impact our revenues and would have a more significant effect on our gross margins and overall profitability.

Given the sensitivity of our systems and, in particular, print heads to lower quality ink, which may cause our print heads to clog or otherwise malfunction, our systems are setup to operate at the highest throughput level only when using our original ink and other consumables in order to protect them from damage. In addition, since we are unable to control the impact of third-party inks, their use and the use of third-party spare parts might void the warranty that comes with our systems. We have also sought to protect the proprietary technology underlying our ink through patents and other forms of intellectual property protections and include an RFID mechanism with our ink tanks. These steps that we have taken to ensure the smooth operation of our systems and our ability to fully invoke all our intellectual property rights may be challenged. Any reduction in our ability to market and sell our ink and other consumables and spare parts for use in our systems may adversely impact our future revenues and our overall profitability.

We face increased competition and if we do not compete successfully, our revenues and demand for our solutions could decline.

The principal competition for our digital printing systems comes from manufacturers of analog screen printing systems, textile printers and ink, such as M&R Printing Equipment, Inc., Machines Highest Mechatronic GmbH and S. Roque – Máquinas e Tecnologia Laser, S.A. Our principal competitor in the industrial digital direct-to-garment market is Aeoon Technologies GmbH. Recently, a new competitor named 240 tech LLC/OvalJet, with little track record or proven capabilities, entered into the market with an intent to compete in the industrial digital direct-to-garment market. We also face some competition in the market from Brother International Corporation, Seiko Epson Corporation, Ricoh Company Ltd. and a number of smaller competitors in scenarios where industrial level production capacity is attempted to be built by the use of multiple entry level systems. Our competitors in the Direct-to-Fabric (also known as R2R), or DTF, market include: Dover Corporation through its MS Printing Solutions S.r.l. subsidiary; Seiko Epson Corporation through its subsidiary, Fratelli Robustelli S.r.l; Durst Phototechnik AG; Electronics for Imaging, Inc. through its Reggiani Macchine SpA subsidiary; and a number of smaller competitors. The principal competition for our KornitX fulfillment network offering which enables on-demand production of textiles and other goods, comes from a variety of virtual marketplaces that are offering certain fulfillment services or applications, or purpose-built direct API connectivity to specific fulfillers. The principal competition for our KornitX production floor management workflow solutions comes from homegrown IT solutions developed by existing and prospective customers, as well as a number of small software companies.

Some of our current and potential competitors have larger overall installed bases, longer operating histories and greater name recognition than we have. In addition, many of these competitors have greater sales and marketing resources, more advanced manufacturing operations, broader distribution channels and greater customer support resources than we have. Some of our competitors in the DTF market gained their current market position by merging with, or acquiring, existing companies in the DTF market. Current and future competitors may be able to respond more quickly to changes in customer demands and devote greater resources to the development, promotion and sale of their printers and ink and other consumables than we can. Our current and potential competitors in both the direct-to-garment and direct-to-fabric markets may also develop and market new technologies that render our existing solutions unmarketable or less competitive. In addition, if these competitors develop products with similar or superior functionality to our solutions at prices comparable to or lower than ours, we may be forced to decrease the prices of our solutions in order to remain competitive, which could reduce our gross margins.

Our move towards a higher proportion of direct sales in place of indirect sales may have adverse consequences.

Our go-to-market strategy consists of a hybrid model of indirect and direct sales, depending on the specific territory into which we are selling. We continually evaluate that strategy in the geographies we serve in an effort to best serve our direct or indirect customers. When we shift towards a direct sales model in relevant territories, we may experience an initial disruption to our sales efforts in those jurisdictions as we transition from our previous sales structure. In addition, a shift to a direct sales model might result in a short-term impact on our results of operations, including due to the acquisition of inventory that requires a step up in basis and other such accounting impacts and costs associated with increased headcount and related expenses. Moreover, the implementation of a direct sales model might require significant management time and attention which might have an adverse impact on our business and results of operations during the transition period. We have been exposed to risks as a result of transitioning from an indirect sales model to a direct sales model in relevant territories, such as difficulties maintaining relationships with specific customers, hiring appropriately trained personnel and ensuring compliance with local product registration requirements.

A significant portion of our sales is concentrated among a small number of customers, and our business would be adversely affected by a decline in sales to, or the loss of, those customers.

During the years ended December 31, 2020 and 2021, our ten largest customers accounted for approximately 55% and 57% of our revenues, respectively. During those same years, Amazon Corporate LLC, a subsidiary of Amazon.com, Inc., which we collectively refer to as Amazon, accounted for approximately 11% and 27% of our revenues, respectively. Given the concentration of our revenues with these customers, the loss of either Amazon or another one of our significant customers, or variability in their order flows, could materially adversely affect our revenues or results of operations.

Our operating results are subject to seasonal variations, which could cause the price of our ordinary shares to decline.

Our business is seasonal. Either the third or fourth quarter has historically been our strongest quarter in terms of revenues, and the first quarter has been our weakest. This seasonality coincides with spending in anticipation of the holidays towards the end of the year, especially in the United States and Europe. In the last three fiscal years, we have continuously increased our operating expenses throughout the year, and as such, the expense run rate at which we have ended each year is significantly higher than where we started the given year. The carryover of such costs into the first quarter of the following year results in downward pressure on operating margins, which is compounded by seasonally lower revenue in the first quarter compared to other quarters.

In addition, during the third and fourth quarters, when customer spending is at its highest levels, we enjoy a more favorable revenue mix, generating greater revenues from the sales of ink and other consumables than in the first quarter. Since sales of ink and other consumables generate higher gross margins than systems sales, gross margin in the third or fourth quarter tends to be higher than gross margin in the first quarter, when our customers typically reduce their system utilization rates significantly, and thereby purchase less ink and other consumables. This impact leads to a reduction in overall operating margins. As we continue to focus our sales efforts on larger accounts, and as we continue to invest in the growth of our business, the impact of this seasonal decline in revenues generated from sales of ink and other consumables has had and may continue to have a more pronounced impact on gross margins and operating margins.

Our quarterly results of operations have fluctuated in the past and may fluctuate in the future due to variability in our revenues.

Our revenues and other results of operations have fluctuated from quarter to quarter in the past and could continue to fluctuate in the future. Our revenues depend in part on the sale and delivery of our systems, and we cannot predict with certainty when sales transactions for our systems will close or when we will be able to recognize the revenues from such sales, which generally occurs upon delivery of our systems. Customers that we expect to purchase our systems may delay doing so due to timing of obtaining regulatory permits or a change in their priorities or business plans, including as a result of adverse general economic conditions that may disproportionately impact the ability of the small businesses that constitute a significant portion of our customer base to expend capital or access financing sources. Such conditions could also force us to reduce our prices or limit our ability to profit from economies of scale, which could harm our gross margins. As a result of these factors, we may fail to meet market expectations for any given quarter if sales that we expect for that quarter are delayed until subsequent quarters. The closing of one or more large transactions in a particular quarter may make it more difficult for us to meet market expectations in subsequent quarters, and our failure to close one or more large transactions in a particular quarter could adversely impact our revenues for that quarter. In addition, we may experience slower growth in our gross margins as our new systems gain commercial acceptance. Our gross margins may also fluctuate based on the regions in which sales of these systems occur.

Our customers generally purchase our ink and other consumables on an as-needed basis, and delays in making such purchases by a number of customers could result in a meaningful shift of revenues from one quarter to the next. Moreover, because ink and other consumables have a shelf life of up to 12 months, we typically maintain inventories of ink and other consumables sufficient to cover our average sales for one quarter ahead. These inventories may not match customers' demands for any given quarter, which could cause shortages or excesses in our ink and other consumables inventory and result in fluctuations of our quarterly revenues. To the extent that we have excess ink and consumables inventory that we are unable to sell due to expiration dates, we may have to write off such inventory. These inventory requirements may also limit our ability to profit from economies of scale in the production of our ink and other consumables.

Furthermore, we base our current and future expense levels on our revenue forecasts and operating plans, and our costs are relatively fixed in the short term, due in part to extended supply and logistics lead times required for ordering certain components of our systems either directly by us or by our contracted manufacturers. Accordingly, we would likely not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues during a particular quarter, and even a relatively small decrease in revenues could disproportionately and adversely affect our financial results for that quarter. The variability and unpredictability of these and other factors could result in our failing to meet financial expectations for a given period.

Our contractual arrangements with Amazon, a significant customer, contain a number of material undertakings by us and other agreements the impact of which cannot be fully predicted in advance.

In January 2017, we entered into a master purchase agreement with an affiliate of Amazon.com, Inc. governing sales of our systems and ink and other consumables at agreed-upon prices that vary based on sales volumes. We also agreed to provide maintenance services and extended warranties to Amazon at agreed prices. The term of the agreement was five years beginning on May 1, 2016 and extends automatically for additional one-year periods unless terminated by Amazon. Under the agreement, we issued to an affiliate of Amazon warrants to purchase up to 2,932,176 of our ordinary shares, which vested based on payments made by Amazon in connection with the purchase of goods and services from us. Amazon exercised all of those original warrants on a cashless (net) exercise basis in connection with our September 2020 and November 2021 public offerings, resulting in the issuance to it, and its sale in those offerings, of 1,689,942 and 705,953 ordinary shares, respectively. In September 2020, we and Amazon entered into a new transaction agreement under which we issued to an affiliate of Amazon new warrants to acquire up to 3,401,028 of our ordinary shares at a purchase price of $59.26 per share. Those new warrants vest over a five-year period starting in January 2021 based on payments made by Amazon in connection with the purchase of goods and services from us.

Our contractual agreements with Amazon contain a number of material undertakings and other arrangements:

- Our revenues are presented net of the relative value of the warrants in each particular period related to the revenues recognized. The warrants are reported as a reduction of revenue in the Company's income statement when related revenues are recognized. Up until December 31, 2018, the value of the warrants was determined as the fair value at the time revenues were recognized, and that value was remeasured on each financial reporting date until total revenues of $5 million were recognized. Following our adoption of ASU 2018-07 on January 1, 2019 and our early adoption of ASU 2019-08 on the same date, effectively, from January 1, 2019 (the adoption date), the value of the current warrants is determined as their fair value as of the adoption date and for the new warrants – their fair value as at the grant date of September 14, 2020.

- We have agreed to provide a rebate to Amazon based on the number of systems and amount of ink and other consumables Amazon orders in a given 12-month period. The timing and scale of any such rebate may be difficult to predict and may cause fluctuations in our quarterly revenues, gross profit and operating profit.

- We are required to notify Amazon 12 months in advance if we intend to stop supporting one of the products or services that we supply to Amazon and to continue to manufacture the product or provide such service during such 12-month period. Subject to certain exceptions, we are required to continue to supply ink in such quantities as Amazon requires for at least 36 months after the earlier of (1) the end of the term of the master purchase agreement or (2) 18 months following the purchase of the last product sold pursuant to the agreement.

- We are required to deliver our products and services to Amazon and to comply with a service level agreement. If we fail to meet the requirements under such service level agreement Amazon will receive credits against its cost for those delayed products or services.

The impact of the provisions listed above cannot be fully predicted in advance and could, in certain circumstances, adversely impact our business or results of operations, or the manner in which investors or analysts assess and perceive our performance.

If our relationships with suppliers, especially with single source suppliers of components, were to terminate, our business could be harmed.

We maintain an inventory of parts to facilitate the timely assembly of our systems, production of our ink and other consumables, and servicing our installed base. Most components are available from multiple suppliers, although certain components used in our systems and ink and other consumables, such as our print heads and certain chemicals included in our inks, are only available from single or limited sources as described below.

- The print heads for our systems are supplied by a sole supplier, FujiFilm Dimatix, Inc., or FDMX. We entered into an agreement with FDMX in 2015, pursuant to which FDMX sells us certain off-the-shelf print heads and additional products, all of which FDMX regularly sells to providers of inkjet systems. Our current agreement terminates in December 2022, at the conclusion of an initial three-year renewal period, and provides for further one-year renewal periods thereafter. The agreement provides that beginning with the start of the first one-year renewal period, FDMX may increase the prices of the products that we purchase from it upon 90-days' prior notice, subject to certain conditions. During the successive one-year periods, FDMX or we can terminate the agreement upon 90 days' notice prior to the end of the then-current term. Our agreement further provides that FDMX may, at its option, discontinue products supplied under the agreement, provided that we are given one-year notice of the planned discontinuance and are provided with an end-of-sale purchase program. On January 28, 2022, we entered into a memorandum of understanding with FDMX, pursuant to which we guaranteed capacity and product quantities for 2022.

- A chemical used in some of our inks is supplied by B.G. (Israel) Technologies Ltd., or BG Bond, a subsidiary of Ashtrom Ltd., a large public Israeli industrial company. The chemicals were previously supplied under a definitive agreement which has expired, and currently we purchase these chemicals on a purchase order basis. For some of our inks, this chemical is supplied by an affiliate of The Dow Chemical Company, a multinational producer of chemicals and other compounds. We currently purchase these chemicals on a purchase order basis.

- Dispersing agents used in some of our inks are supplied by BASF SE. We currently purchase these dispersing agents from BASF on a purchase order basis. We maintain safety stock of these chemicals in an amount which will allow us to continue our manufacturing for several fiscal quarters in case of discontinuation.

- Several raw materials and pigments used in some of our inks are supplied by Clariant AG, or Clariant. We currently purchase these raw materials and pigments on a purchase order basis. We maintain safety stock of these raw materials and pigments in an amount which will allow us to continue our manufacturing for several fiscal quarters in case of discontinuation. We are currently in the process of entering into a long-term supply agreement with Clariant.

- Certain parts of the control system of our systems are supplied by a sole supplier, Yaskawa Europe Technology Ltd., an affiliate of Yaskawa Electric Corporation, or Yaskawa. Our turnkey suppliers (Flex, Sanmina- SCI Israel Medical Systems Ltd. and Hameshavev H.M.T.S. Ltd.), which assemble the control system on our behalf, purchase those control system parts from Yaskawa. We also purchase additional, spare control system parts from Yaskawa for our service department on a purchase order basis. Yaskawa maintains additional inventory of these control system parts as safety stock for our benefit, based on our requirements.

- One of our printing systems contains a dryer that we purchase from Adelco Screen Process, or Adelco, which serves as a sole supplier of that part. The dryer is supplied under an April 2019 agreement that we entered into with Adelco. Under the agreement, Adelco has committed to supply quantities in accordance with our annual forecasts, including the forecast that we have provided for 2022.

The loss of any of these suppliers, or of a supplier for which there are limited other sources, could result in the delay of the manufacture and delivery of our systems or inks and other consumables. For instance, FDMX has from time to time indicated that it may discontinue manufacturing the print head that we currently source from it and use in our systems, although it has never provided notice that it is actually doing so. In the event FDMX discontinues manufacturing the print head, we would be required to qualify a new print head for our systems (based only on whatever knowledge we have gained from qualifying print heads in the past). In order to minimize the risk of any impact from a disruption or discontinuation in the supply of print heads, raw materials or other components from limited source suppliers, we maintain an additional inventory of such components, in addition to the end of life purchase program that would be available to us if the products we purchase from FDMX were discontinued. Nevertheless, such inventory may not be sufficient to enable us to continue supplying our products for a longer period, should we need to locate and qualify a new supplier.

Other risks resulting from our reliance on suppliers include:

- if we experience an increase in demand for our solutions, our suppliers may be unable to provide us with the components that we need in order to meet that increased demand in a timely manner;

- our suppliers may encounter financial hardships unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements;

- we may experience production delays related to the evaluation and testing of products from alternative suppliers;

- we may be subject to price fluctuations due to a lack of long-term supply arrangements for key components;

- we or our suppliers may lose access to critical services and components, resulting in an interruption in the manufacture, assembly and shipment of our systems or inks and other consumables; and

- fluctuations in demand for components that our suppliers manufacture for others may affect their ability or willingness to deliver components to us in a timely manner.

If any of these risks materialize, the costs associated with developing alternative sources of supply or assembly in a timely manner could have a material adverse effect on our ability to meet demand for our solutions. Our ability to generate revenues could be impaired, market acceptance of our solutions could be adversely affected, and customers may instead purchase or use alternative products. We may not be able to find new or alternative components of a requisite quality or find that we are unable to reconfigure our systems and manufacturing processes in a timely manner if the necessary components become unavailable. As a result, we could incur increased production costs, experience delays in the delivery of our solutions and suffer harm to our reputation, which may have an adverse effect on our business and results of operations.

The recent constraints in global supply chains, which began in 2020 as a by-product of the COVID-19 pandemic, and which may be exacerbated by Russia’s invasion of Ukraine in February 2022, enhance the risk that we will not have access to the materials provided by our suppliers. While we have implemented the following upgrades to our modes of supply, in order to ensure availability of our products to our customers at all times, there is no guarantee that these measures will work adequately well:

- Providing our contract manufacturers with advanced manufacturing forecasts for extended periods.

- Minimizing as much as possible the number of our single sole source suppliers.

- Extensive concurrent efforts on our part to engineer components internally.

- Increasing our stock levels and the quantities included in our long-term purchase orders, particularly for electronics components, chemicals, and other critical commodities.

Our new Kiryat Gat facility was constructed on lands leased by us from the Israel Lands Administration, or ILA. If we are unable to continue to use such lands, we would be unable to use the facility and our results of operations and future prospects will suffer as a result.

In November 2018, we entered into a development agreement, which we refer to as the Development Agreement, with the ILA for the construction of our new, modern, manufacturing facility in Kiryat Gat on lands leased from the ILA. Construction was concluded at the end of 2021. Following the completion of the construction and our receipt of all required approvals from the ILA, we shortly expect to enter into a long-term lease agreement with the ILA, or the Lease Agreement, for a period of 49 years and which may be renewed for an additional 49 years, which agreement will replace the Development Agreement. The Development Agreement provided, and the Lease Agreement will provide, that if our company were a “foreign subject,” which includes being under foreign control (i.e., a majority of our ordinary shares held by non-Israelis), that would constitute a fundamental breach under the agreement. We followed (in the case of the Development Agreement) and we intend to follow (in the case of the Lease Agreement) a specific standard process for seeking approval from the ILA for our entering into the agreement despite our potential status as a “foreign subject,” given that our shares are traded on Nasdaq and are held by multiple shareholders whose identities are unknown. However, should such approval not be provided under the Lease Agreement, the ILA would be entitled to terminate that agreement if our company would be considered a “foreign subject” under the terms of the agreement. If the Lease Agreement is terminated, we would be unable to use the new Kiryat Gat facility constructed on that property, which would have a material adverse effect on our results of operations.

Disruption of operations at our manufacturing site or those of third-party manufacturers could prevent us from filling customer orders on a timely basis.

We manufacture our ink and other consumables at our new, modern facility in Kiryat Gat, Israel. We also rely on contract manufacturing services provided by Flex, Sanmina-SCI Israel Medical Systems Ltd. and Hameshavev H.M.T.S. Ltd., which are also in Israel, to assemble our systems. We expect that almost all of our revenues in the near term will be derived from the systems and ink and other consumables manufactured at these facilities.

The loss of any of these contract manufacturers could result in the delay of the assembly and delivery of our systems. If that occurs or these contract manufacturers cease to provide manufacturing services for any reason, the costs associated with developing alternative sources of assembly in a timely manner could have a material adverse effect on our ability to meet demand for our solutions. Our ability to generate revenues could be impaired, market acceptance of our solutions could be adversely affected, and customers may instead purchase or use alternative products.

If operations in any of these facilities were to be disrupted due to a major equipment failure or power failure lasting beyond the capabilities of backup generators or other events outside of our reasonable control, our manufacturing capacity could be shut down for an extended period, we could experience a loss of raw materials or finished goods inventory and our ability to operate our business would be harmed. In addition, in any such event, the repair or reconstruction of our or our third-party manufacturers’ manufacturing facilities and storage facilities could take a significant amount of time. During this period, we or our third-party manufacturers would be unable to manufacture some or all of our systems or we may not be able to produce our ink and other consumables.

Our operating results could decline in the near-term if we fail to execute on our growth strategies.

Our operating margin was 4.2% in 2019, (3.5%) in 2020 and 4.0% in 2021. Our growth strategies, many of which are aimed at achieving operating and net profit margins, include increasing sales to existing customers, acquiring new high-volume customers, capitalizing on growth in our targeted markets and extending our serviceable addressable market by continuing to enhance our solutions. If we do not execute these strategies successfully, it could adversely impact our revenues and have a negative impact on our operating and net profit margins.

Our business and operations may be negatively affected if we fail to effectively manage our growth.

We have experienced significant growth in a relatively short period of time and intend to continue to grow our business. Our revenues have grown from $156.6 million in 2019 to $322.0 million in 2021. Our headcount has increased from 557 as of December 31, 2019 to 882 as of December 31, 2021. We plan to continue to hire additional employees across all areas of our company. Our rapid growth has placed significant demands on our management, sales and operational and financial infrastructure, and our growth will continue to place significant demands on these resources. Further, in order to manage our future growth effectively, we must continue to improve our IT and financial infrastructure, operating and administrative systems and controls and efficiently manage headcount, capital and processes. We may not be able to successfully implement these improvements in a timely or efficient manner, and our failure to do so may materially impact our projected growth rate.

Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.

A significant invasion, interruption, destruction or breakdown of our information technology, or IT, systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. We could also experience business interruption, information theft and/or reputational damage from cyber attacks, which may compromise our systems and lead to data leakage either internally or at our third party suppliers or customers. Both data that has been inputted into our main IT platform, which covers records of transactions, financial data and other data reflected in our results of operations, as well as data related to our proprietary rights (such as research and development, and other intellectual property- related data), are subject to material cyber security risks. Our IT systems have been, and are expected to continue to be, the target of malware and other cyber attacks. To date, we are not aware that we have experienced any loss of, or disruption to, material information as a result of any such malware or cyber attack.

We have invested in advanced protective systems to reduce these risks, some of which have been installed and others that are still in the process of installation. Based on information provided to us by the suppliers of our protective systems, we believe that our level of protection is in keeping with the customary practices of peer technology companies. We also maintain back-up files for much of our information, as a means of assuring that a breach or cyber attack does not necessarily cause the loss of that information. We furthermore review our protections and remedial measures periodically in order to ensure that they are adequate.

Despite these protective systems and remedial measures, techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. We may be unable to anticipate these techniques or implement sufficient preventative measures, and we therefore cannot assure you that our preventative measures will be successful in preventing compromise and/or disruption of our information technology systems and related data. We furthermore cannot be certain that our remedial measures will fully mitigate the adverse financial consequences of any cyber attack or incident.

We have started the implementation of a new enterprise resource planning (ERP) system, and if we encounter any issues with the design or implementation of this system, that could interfere with our business and operations.

We have begun the process of designing and implementing a new ERP system. We are currently in the early design phases of the project. This project will require significant capital and human resources, the re-engineering of many processes of our business, and the attention of our management and other personnel who would otherwise be focused on other aspects of our business. The implementation may be more expensive and take longer to fully implement than we originally plan, resulting in increased capital investment, higher fees and expenses of third parties, delayed deployment scheduling, and more on-going maintenance expense once implemented. Any such delays may disrupt or reduce the efficiency of our entire operations and such additional expenses may have an adverse effect on our operating results and cash flows.

We and our customers are subject to extensive environmental, health and safety laws and regulations which, if not met, could have a material adverse effect on our business, financial condition and results of operations.

Our manufacturing and development facilities use chemicals and produce waste materials, which require us to hold business licenses that may include conditions set by the Ministry of Environmental Protection for the operations of such facilities. We are also subject to extensive environmental, health and safety laws and regulations governing, among other things, the use, storage, registration, handling and disposal of chemicals and waste materials, the presence of specified substances in electrical products, air, water and ground contamination, air emissions and the clean-up of contaminated sites. In the future we may incur expenditure of significant amounts in the event of non-compliance and/or remediation. Furthermore, requirements of environmental laws have adversely affected and may continue to adversely affect the ability of our customers to install and use our systems in a timely manner. If we fail to comply with such laws or regulations, we may be subject to fines and other civil, administrative or criminal sanctions, including the revocation of our toxin permit, business permits, or other permits and licenses necessary to continue our business activities. In addition, we may be required to pay damages or civil judgments in respect of third-party claims, including those relating to personal injury, including exposure to hazardous substances that we use, store, handle, transport, manufacture or dispose of, or property damage. Some environmental, health and safety laws and regulations allow for strict, joint and several liability for remediation costs, regardless of comparative fault. We may be identified as a potentially responsible party under such laws. In addition, our customers may encounter delays in obtaining or be unable to obtain regulatory permits to operate our systems in their facilities, which may result in cancellation or delay of orders of our systems.

The export of our products internationally subjects us to environmental laws and regulations concerning the import and export of chemicals and hazardous substances. In the European marketplace, electrical and electronic equipment is required to comply with the Directive on Waste Electrical and Electronic Equipment, or WEEE, which aims to prevent waste by encouraging reuse and recycling, and the Directive on Restriction of Use of Certain Hazardous Substances, or RoHS, which restricts the use of ten hazardous substances in electrical and electronic products. Additionally, we are required to comply with certain laws, regulations and directives such as the United States Toxic Substances Control Act, or TSCA, and the Registration, Evaluation, Authorization and Restriction of Chemical Substances, or REACH. These laws and regulations require the testing and registration of some chemicals that we ship along with, or that form a part of, our systems and other products. If we fail to comply with these or similar laws and regulations, we may be required to make significant expenditures to reformulate the chemicals that we use in our products and materials or incur costs to register such chemicals to gain and/or regain compliance. Additionally, we could be subject to significant fines or other civil and criminal penalties should we not achieve such compliance.

Any of such developments could have a material adverse effect on our business, financial condition and results of operations. Environmental, health and safety laws and regulations may also change from time to time. Complying with any new requirements may involve substantial costs and could cause significant disruptions to our research, development, manufacturing, and sales.

Achieving our published goals with respect to the environmental impact of our operations and products could result in us incurring additional costs, and our failure to achieve these goals could adversely impact our reputation, employee retention, and willingness of customers to do business with us.

Investor advocacy groups, certain institutional investors, investment funds, lenders and other market participants, shareholders, and customers have focused increasingly on the environmental, social, and governance (ESG) or “sustainability” practices of companies. These parties have placed increased importance on the implications of the social cost of their investments. Our 2020 Impact Report set out long-term targets with respect to the environmental impact of our operations and products. These targets reflect our current plans and aspirations and are not guarantees that we will be able to achieve them. Our efforts to accomplish and accurately report on these goals and objectives present numerous operational, reputational, financial, legal and other risks, any of which could have a material negative impact. If we do not achieve these targets, or if our ESG practices generally do not meet investor, lender, or other industry stakeholder expectations and standards, which continue to evolve, our reputation and access to capital may be negatively impacted and we could be the subject of government investigations and enforcement actions and private litigation. Our share price and financial results may be adversely affected as a result of such events or if we fail to achieve targets that we have set.

Our 2020 Impact Report discussed our policies and practices on a variety of environmental, social and ethical matters, including corporate governance, climate change risks, environmental compliance, employee health and safety practices, human capital management, and workforce inclusion and diversity. It is possible that stakeholders may be dissatisfied with our ESG practices or the speed of their adoption. We expect to incur additional costs and require additional resources to monitor, report, and comply with various ESG practices. This area is rapidly developing, and a failure or perceived failure by us to set appropriate goals and prioritize ESG practices could negatively impact our reputation, employee retention, and the willingness of our customers to do business with us.

Increasing temperatures as a result of climate change may adversely affect our business and impact our results of operations.

Our operations rely upon cooling processes, which utilize significant energy and electricity resources. Increasing temperatures as a result of climate change could potentially lead to significant increases in our usage of energy and electricity in our operations worldwide, which would cause our expenses to increase. We believe that this risk could materially adversely affect our business and impact our results of operations.

Exchange rate fluctuations between the U.S. dollar and the Israeli shekel, the Euro and other non-U.S. currencies may negatively affect our earnings.

The U.S. dollar is our functional and reporting currency. However, a significant portion of our operating expenses are incurred in Israeli shekels, or NIS. As a result, we are exposed to the risk that the NIS may appreciate relative to the dollar, or, if the NIS instead devalues relative to the dollar, that the inflation rate in Israel may exceed such rate of devaluation of the NIS, or that the timing of such devaluation may lag behind inflation in Israel. In any such event, the dollar cost of our operations in Israel would increase and our dollar-denominated results of operations would be adversely affected. To protect against an increase the dollar-denominated value of expenses paid in NIS during the year, we have instituted a foreign currency cash flow hedging program, which seeks to hedge a portion of the economic exposure associated with our anticipated NIS-denominated expenses using derivative instruments. We expect that the substantial majority of our revenues will continue to be denominated in U.S. dollars for the foreseeable future and that a significant portion of our expenses will continue to be denominated in NIS. We cannot provide any assurances that our hedging activities will be successful in protecting us in full from adverse impacts from currency exchange rate fluctuations since we only plan to hedge a portion of our foreign currency exposure, and we cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation (if any) of the NIS against the dollar For example, based on annual average exchange rates, the NIS appreciated by 0.8%, 3.4% and 6.2% against the dollar in 2019, 2020 and 2021, respectively. During these periods, there was inflation of 0.6%, deflation of 0.7% and inflation of 2.8% in Israel in 2019, 2020 and 2021, respectively. If the dollar cost of our operations continues to increase, our dollar-measured results of operations will be adversely affected. See "ITEM 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk."

In addition, a material portion of our leases are denominated in currencies other than the U.S. dollar, mainly in NIS. In accordance with a lease accounting standard, which became effective on January 1, 2019, the associated lease liabilities will be remeasured using the current exchange rate in future reporting periods, which may result in material foreign exchange gains or losses. See Note 2, "Significant Accounting Policies", to the consolidated financial statements included in Item 18 of this annual report for more details.

Our business could suffer if we are unable to attract and retain key employees.

Our success depends upon the continued service and performance of our senior management and other key personnel. Our senior executive team is critical to the management of our business and operations, as well as to the development of our strategies. The loss of the services of any of these personnel could delay or prevent the continued successful implementation of our growth strategy, or our commercialization of new applications for our systems and ink and other consumables, or could otherwise affect our ability to manage our company effectively and to carry out our business plan. Members of our senior management team may resign at any time. High demand exists for senior management and other key personnel in our industry. There can be no assurance that we will be able to continue to retain such personnel. We have recently experienced changes in senior personnel, notably, our CFO in December 2020 and our President of KornitX in November 2021. To the extent we experience additional frequent changes in our leadership team (or the leadership teams of our subsidiaries) going forward, that could adversely affect our performance in a material manner.

Our growth and success also depend on our ability to attract and retain additional highly qualified scientific, technical, sales, managerial, operational, HR, marketing and finance personnel. We compete to attract qualified personnel, and, in some jurisdictions in which we operate, the existence of non-competition agreements between prospective employees and their former employers may prevent us from hiring those individuals or subject us to lawsuits from their former employers. While we attempt to provide competitive compensation packages to attract and retain key personnel, some of our competitors have greater resources and more experience than we have, making it difficult for us to compete successfully for key personnel. If we cannot attract and retain sufficiently qualified technical employees for our research and development operations on acceptable terms, we may not be able to continue to competitively develop and commercialize our solutions or new applications for our existing systems. Further, any failure to effectively integrate new personnel could prevent us from successfully growing our company.

Under applicable employment laws, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We generally enter into non-competition agreements with our employees. These agreements prohibit our employees, if they cease working for us, from competing directly with us or working for our competitors or clients for a limited period. We may be unable to enforce these agreements under the laws of the jurisdictions in which our employees work and it may be difficult for us to restrict our competitors from benefiting from the expertise that our former employees or consultants developed while working for us. For example, Israeli labor courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer that have been recognized by the courts, such as the secrecy of a company's trade secrets or other intellectual property.

We have a significant presence in international markets and plan to continue to expand our international operations, which exposes us to a number of risks that could affect our future growth.

We have a worldwide sales, marketing and support infrastructure that is comprised of independent distributors and value added resellers, and our own personnel resulting in a sales, marketing and support presence in over 100 countries and states, including markets in North America, Western and Eastern Europe, the Asia Pacific region and Latin America. We expect to continue to increase our sales headcount, our applications development headcount, our field support headcount, our marketing headcount and our engineering headcount and, in some cases, establish new relationships with distributors, particularly in markets where we currently do not have a sales or customer support presence. As we continue to expand our international sales and operations, we are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection, as well as longer collection periods;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- general economic and political conditions in these foreign markets;
- economic uncertainty around the world, including in respect of how our operations and sales in the European Union and the United Kingdom may potentially be impacted by Brexit;
- management communication and integration problems resulting from cultural and geographic dispersion;
- potential disruption to the supply of certain of our raw materials for our products that are sourced in countries impacted by the coronavirus outbreak, due to the slowdown in activity there (although our products are manufactured in Israel only);
- potential adverse impact to our revenues worldwide, due to the spread of the coronavirus throughout the world, which has reduced economic activity in markets into which we sell our products;

- the impact of Russia's invasion of Ukraine in February 2022 and trade and monetary sanctions in response to such developments on the markets in which we operate;

- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our solutions required in foreign countries, such as high import taxes in Brazil and other Latin American markets where we sell our products;

- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;

- the uncertainty of protection for intellectual property rights in some countries;

- greater risk of a failure of employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, or FCPA, the European Union General Data Protection Regulation, or GDPR (which broadened the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches promptly and obtain the consent of individuals on how their data can be used), the California Consumer Privacy Act, or CCPA (which imposes enhanced disclosure requirements for us vis-à-vis our interactions with customers that are residents of California), and any trade regulations ensuring fair trade practices; and

- heightened risk of unfair or corrupt business practices in certain regions and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

Any of these risks could adversely affect our international operations, reduce our revenues from outside the United States or increase our operating costs, adversely affecting our business, results of operations and financial condition and growth prospects. There can be no assurance that all of our employees and channel partners will comply with the formal policies that we have in place and/or will implement, or applicable laws and regulations. Violations of laws or key control policies by our employees and channel partners could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our software and services and could have a material adverse effect on our business and results of operations.

We manufacture and sell products that may create exposure to product liability, warranty liability, or personal injury claims and litigation that may harm our business and results of operations.

Product quality and safety issues could negatively impact consumer confidence in our brand and our business. Our products may not successfully achieve applicable safety standards or customers' expectations regarding safety or quality. Our products may contain or, be alleged to contain, components containing hazardous materials that may present certain health, safety, or quality concerns. Additionally, from time to time, system errors and/or deficiencies may be discovered in the design, manufacturing, assembling, labeling and product formulations of our systems, ink, and other consumables, and associated software. Hazardous materials, errors, and/or deficiencies may also be identified in materials, components, and systems produced by others and used with or incorporated into our products. Some of these issues may not be apparent until after certain products are installed or used by customers, including in circumstances where a product is first introduced or a new version is released. We expect that these errors or defects will be found from time to time in new or enhanced systems after commencement of commercial distribution or upon software upgrades.

To the extent that any error, deficiency, or hazardous component (which presents a safety concern) exists in any of our products and is not discovered and corrected before a product is introduced to the market, such product could be unsafe and/or could cause damage, including property damage, personal injury, or death. In such circumstances, the actual, potential, or perceived product safety concerns and/or defects in the manufacturing or design, a failure to warn of dangers inherent in the product, negligence, or strict liability could expose us to litigation relating to product liability, warranty liability, or personal injury, as well as government enforcement actions.

Such litigation could force us to incur significant expenses, divert management's time and attention, subject us to adverse publicity, and damage our reputation and competitive position. A successful assertion of a claim against us may result in potentially significant monetary damages, penalties, or fines and adversely affect sales of our products. Although we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted against us. In addition, costs or payments made in connection with warranty and product liability claims and system recalls could adversely affect our financial condition and results of operations in a material manner. Product liability claims, injuries, defects, or other problems experienced by other companies in the digital printing industry could lead to unfavorable market conditions for the industry as a whole.

We may need substantial additional capital in the future, which may cause dilution to our existing shareholders, restrict our operations or require us to relinquish rights to our pipeline products or intellectual property. If additional capital is not available, we may have to delay our expansion plans or reduce operations.

Based on our current business plan, we believe our cash flows from operating activities and our existing cash resources will be sufficient to meet our currently anticipated cash requirements through the next 12 months without drawing on our lines of credit or using significant amounts of the net proceeds from our initial public offering and follow-on offerings. We have recently raised $339.8 million of aggregate net proceeds from our November 2021 follow-on public offering, and had approximately $798.1 million in cash, cash equivalents, short term deposits and marketable securities as of December 31, 2021. Nevertheless, to the extent our anticipated cash requirements change due to our expansion plans or otherwise, we may seek additional funding in the future. This funding may consist of equity offerings, debt financings or any other means to expand our sales and marketing capabilities, develop our future solutions or pursue other general corporate purposes. Securing additional financing may divert our management from our day-to-day activities, which may adversely affect our ability to market our current solutions and develop and sell future solutions. Additional funding may not be available to us on acceptable terms, or at all.

To the extent that we raise additional capital through, for example, the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a shareholder. The incurrence of indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our ordinary shares to decline.

We have acquired businesses and may acquire other businesses and/or companies, which could require significant management attention, disrupt our business, dilute shareholder value, and adversely affect our results of operations.

As part of our business strategy, we have acquired businesses and may acquire or make investments in other complementary companies, products or technologies. For example, in August 2020 and in August 2021 we acquired Custom Gateway (a provider of cloud-based software workflow solutions for both B2B and B2C business models), and the assets of Voxel8 (which possessed advanced additive manufacturing technology for textiles), respectively. In January 2022, we announced our agreement to acquire Tesoma (a provider of curing solutions), and we expect to close this acquisition in April 2022. Our experience in acquiring and integrating other companies, products or technologies is limited. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we complete other acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by our customers, analysts and investors. In addition, if we are unsuccessful at integrating such acquisitions or the technologies associated with such acquisitions, our revenues and results of operations may be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition or the value of our ordinary shares. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

We may be subject to additional tax liabilities in the future as a result of audits of our tax returns.

We are subject to income taxes principally in Israel, Germany, Hong-Kong, United Kingdom, Japan and the United States. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes, and if the relevant tax authority does not agree with the positions that we take, we could be subject to tax audit and face significant tax liabilities, which could have a material adverse effect on our results of operations. We were recently subject to such a tax audit for the years 2013 to 2019 by the Israeli Tax Authority, or ITA, in respect of which we ultimately reached a settlement with the ITA. We account for income taxes in accordance with ASC 740, “Income Taxes.” ASC 740, which prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax basis of assets and liabilities are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

We account for uncertain tax positions in accordance with ASC 740-10 two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative probability) likely to be realized upon ultimate settlement. We currently maintain reserves for uncertain tax positions. If the potential tax liabilities in respect of which we have taken these reserves exceed the amount of those reserves, that may have a material adverse effect on our results of operations. For more information on our tax positions please refer to Note 14 to our financial statements that appear in Item 18 of this annual report.

We are subject to risks associated with the provision of KornitX cloud-based software

On August 7, 2020, we closed the acquisition of Custom Gateway, a leading global provider of cloud-based software workflow solutions for both B2B and B2C business models. The Custom Gateway acquisition provided the basis for the creation of KornitX. KornitX has approximately 250 customers, including leading brands, retailers, and fullfillers. Prior to our acquisition of Custom Gateway, we had not offered customers a subscription-based software or service to manage on-demand production. We do not expect the KornitX offering to have a material impact on our overall results of operations in the very near term; however, we believe that it nonetheless exposes us to a number of potential risks, including the following:

- software bugs and defects that adversely impact our customer’s production processes;
- unauthorized access, data breaches and/or loss of customer data, including data regarding payment methods;
- use of unauthorized open source software or other infringements of third-party intellectual property;
- challenges providing support to software users; and
- challenges related to our required delivery of the service level agreements under the virtual supplier model that we utilize for our KornitX offering.

If any of the foregoing risks materializes, our reputation may be adversely impacted, which could, in turn, adversely impact sales of our products and diminish customer confidence in us.

The global COVID-19 pandemic has had, in the recent past, and could have, once again, harmful effects on our business continuity, or on our performance and results of operations.

The COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide, including in most or all of the regions in which we sell our products and services and conduct our business operations.

Throughout the period since late in the first quarter of 2020, when the pandemic began, we have acted to ensure the safety and health of our employees, while maintaining business continuity. During periods in which the level of sickness rose, most of our offices were partially or fully closed and most of our employees worked remotely as a precautionary measure intended to minimize the risk of the virus to our employees, our customers, our partners and the communities in which we operate. In addition, during those periods, our manufacturing sites and R&D facilities have generally operated in shifts (capsules) and with high discipline to all health guidelines. During periods of heightened risk of infection, our service teams worked closely with our customers (e.g. everyone was provided with a safety kit), and our global staff shifted to working remotely where needed. Ongoing updates were provided by our CEO and senior Management to all global employees. During periods of reduced sickness, our manufacturing and R&D sites returned to full operation and our Experience Centers, as well as our offices generally re-opened, operating in accordance with safety guidelines of local authorities. Most recently, during the fourth quarter of 2021 and first quarter of 2022, due to renewed outbreaks associated with the Omicron variant of the virus, most of our employees worked partially remote, while our R&D and manufacturing sites operated in shifts. We cannot provide any assurance that the cycle of openings and closures will come to an end in the near future, or that our manufacturing and R&D sites will continue to operate without interruption, particularly if there are additional resurgences in the pandemic.

The move to remote working has not to date materially impacted our business operations or research and development activity. Nevertheless, if our employees are unable to continue working effectively as a result of the COVID-19 pandemic, including because of illness, quarantines, office closures, ineffective remote work arrangements or technology failures or limitations, our operations could be adversely impacted. Further, remote work arrangements may increase the risk of cybersecurity incidents, data breaches or cyber-attacks (including potential retaliatory cyber-attacks stemming from Russia's recent invasion of Ukraine), which could have a material adverse effect on our business and results of operations, due to, among other things, the loss of proprietary data, interruptions or delays in the operation of our business, damage to our reputation and any government imposed penalty.

During 2021, as economies began to open up, our results on a quarterly basis reflected a return to strong year-over-year growth in revenues and most other categories of operations. We believe, based on our 2021 results and the third quarter and fourth quarter results for 2020, that the pandemic has been accelerating existing trends that are favorable to our business and prospects, including with respect to penetration of e-commerce and "re-shoring" of manufacturing capabilities. Nevertheless, we continue to experience an impact on our sales and marketing initiatives due to the inability to conduct in-person meetings and attend industry events which have resulted in longer sales cycles as compared to pre-pandemic cycles. We also cannot be certain of the impact on sales of any resurgence in COVID-19 that may occur in the future. As a result of these factors, and the impact of the pandemic on our customers, it is more difficult to predict our future performance, it will continue to be more challenging to estimate pipeline conversion rates due to the economic uncertainty, and there is a greater risk that any guidance we provide to the market may turn out to be incorrect.

In addition to other risks discussed in this annual report, the COVID-19 pandemic may give rise to a number of risks, including, but not limited to, the following:

- our ability to increase sales to existing customers and to enter key adjacent markets may be hindered due to more cautious purchasing and investment strategies by corporate customers;
- reduced economic activity, which could lead to a prolonged recession, which could negatively impact consumer discretionary spending on garments and apparel, which in turn could severely impact our business operations, financial condition and liquidity;
- a negative impact on our customer success efforts, our ability to enter into new markets and our ability to acquire new customers, in part due to potentially lower conversion rates on risk assessments and delay and lengthen our sales cycles due to virtual meetings;
- an increase in credit losses reserves as customers face economic hardship and collectability becomes more uncertain, including the risk of bankruptcies;
- our ability to retain, attract and recruit employees;
- a reduction in our operating effectiveness, employee productivity, sales and marketing efforts, as our employees work from home;
- potential negative impact on the health of our personnel and staff, particularly if a significant number of them are impacted, which could result in a deterioration in our ability to ensure business continuity during this disruption;
- our ability to complete acquisition processes;
- our ability to remotely develop and enhance our products; and
- our ability to raise capital.

The full impact of COVID-19 on our business and our future performance may also have the effect of heightening any of our other risk factors described in this annual report, and is difficult to predict, so there is some level of risk that any guidance we provide to the market may turn out to be incorrect.

Risks Related to Intellectual Property

If we are unable to obtain patent protection for our solutions or otherwise protect our intellectual property rights, our business could suffer.

The success of our business depends on our ability to protect our proprietary technology, brand owners and other intellectual property and to enforce our rights in that intellectual property. We attempt to protect our intellectual property under patent, trademark, copyright and trade secret laws, and through a combination of confidentiality procedures, contractual provisions and other methods, all of which offer only limited protection.

As of December 31, 2021, we owned 37 issued patents in the United States and 43 provisional or pending U.S. patent applications, along with 41 pending non-U.S. patent applications. We also had 29 patents issued in non-U.S. jurisdictions, and 14 pending Patent Cooperation Treaty patent applications, which are counterparts of our U.S. patent applications. The non-U.S. jurisdictions in which we have issued patents or pending applications are China, the European Union or European countries of the European Union, Hong Kong, Israel, Canada, Australia, Republic of Korea, South Africa, Brazil, Japan and India. We may file additional patent applications in the future. The process of obtaining patent protection is expensive, time-consuming, and uncertain, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner all the way through to the successful issuance of a patent. We may choose not to seek patent protection for certain innovations and may choose not to pursue patent protection in certain jurisdictions. Furthermore, it is possible that our patent applications may not issue as granted patents, that the scope of our issued patents will be insufficient or not have the coverage originally sought, that our issued patents will not provide us with any competitive advantages, and that our patents and other intellectual property rights may be challenged by others through administrative processes or litigation resulting in patent claims being narrowed, invalidated, or unenforceable. In addition, issuance of a patent does not guarantee that we have an absolute right to practice the patented invention. Our policy is to require our employees (and our consultants and service providers, including third-party manufacturers of our systems and components, that develop intellectual property included in our systems) to execute written agreements in which they assign to us their rights in potential inventions and other intellectual property created within the scope of their employment (or, with respect to consultants and service providers, their engagement to develop such intellectual property), but we cannot assure you that we have adequately protected our rights in every such agreement or that we have executed an agreement with every such party. Finally, in order to benefit from the protection of patents and other intellectual property rights, we must monitor and detect infringement and pursue infringement claims in certain circumstances in relevant jurisdictions, all of which are costly and time-consuming. As a result, we may not be able to obtain adequate protection or to effectively enforce our issued patents or other intellectual property rights.

In addition to patents, we rely on trade secret rights, copyrights, trademarks, and other rights to protect our proprietary intellectual property and technology. Despite our efforts to protect our proprietary intellectual property and technology, unauthorized parties, including our employees, consultants, service providers or customers, may attempt to copy aspects of our solutions or obtain and use our trade secrets or other confidential information. We generally enter into confidentiality agreements with our employees, consultants, service providers, vendors, channel partners and customers, and generally limit access to and distribution of our proprietary information and proprietary technology through certain procedural safeguards. These agreements may not effectively prevent unauthorized use or disclosure of our intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our intellectual property or technology. We cannot assure you that the steps taken by us will prevent misappropriation of our intellectual property or technology or infringement of our intellectual property rights. In addition, the laws of some foreign countries where we sell or distribute our solutions do not protect intellectual property rights and technology to the same extent as the laws of the United States, and these countries may not enforce these laws as diligently as government agencies and private parties in the United States. Based on the 2017 report on intellectual property rights protection and enforcement published by the Office of the United States Trade Representative, such countries included Argentina, Chile, China, India, Indonesia, Russia, Thailand and Ukraine (designated as priority watch list countries).

If we are unable to protect our trademarks from infringement, our business prospects may be harmed.

We own trademarks that identify “Kornit”, “NeoPigment”, the “K” logo and “Konnect” logo, and we have an additional trademark registration for the “Custom Gateway” logo, among others, and have registered these trademarks in certain key markets. We further own trademark registrations and applications for VOXEL8, VOXEL8 logo, ACTIVEIMAGE, ACTIVELAB and ACTIVEMIX in certain key markets. Although we take steps to monitor the possible infringement or misuse of our trademarks, third parties may violate our trademark rights. Any unauthorized use of our trademarks could harm our reputation or commercial interests. Efforts to enforce our trademarks may be expensive and time-consuming and may not effectively prevent infringement.

We may not register our trademark rights in all of the markets in which we sell our products, and our application to register our trademarks in various jurisdictions may be opposed by third parties (as has occurred in the past), which could require investment of additional time and resources on our part in order to secure registration of those rights. If we do not succeed, our trademarks will be exposed to infringement in a particular jurisdiction, which could have various adverse effects on our operations in that jurisdiction.

We may become subject to claims of intellectual property infringement by third parties or claims by third parties that our intellectual party rights are invalid, and may be required to indemnify our distributors or other third parties against such claims, which, regardless of their merit, could result in litigation, distract our management and materially adversely affect our business, results of operations or financial condition.

We have in the past and may in the future become subject to third-party claims that assert that our solutions, services and intellectual property infringe, misappropriate or otherwise violate third-party intellectual property or other proprietary rights. We, in turn, will seek to assert the validity of our intellectual property rights by any legal means that we deem necessary or appropriate in response to any actual or perceived threats.

Intellectual property disputes can be costly and disruptive to our business operations by diverting the attention and energies of management and key technical personnel, and by increasing our costs of doing business. Even if a claim is not directly against us, our agreements with distributors generally require us to indemnify them against losses from claims that our products infringe third-party intellectual property rights and entitle us to assume the defense of any claim as part of the indemnification undertaking. Our assumption of the defense of such a claim may result in similar costs, disruption and diversion of management attention to that of a claim that is asserted directly against us. We may not prevail in any such dispute or litigation, and an adverse decision in any legal action involving intellectual property rights could harm our intellectual property rights and the value of any related technology or limit our ability to execute our business.

Adverse outcomes in intellectual property disputes could:

- require us to redesign our technology or force us to enter into costly settlement or license agreements on terms that are unfavorable to us;
- prevent us from manufacturing, importing, using, or selling some or all of our solutions;
- disrupt our operations or the markets in which we compete;
- impose costly damage awards;
- require us to indemnify our distributors and customers; and
- require us to pay royalties.

We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.

A significant portion of our intellectual property has been developed by our employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967, or the Patent Law, inventions conceived by an employee in the course and as a result of or arising from his or her employment with a company are regarded as “service inventions,” which belong to the employer, absent a specific agreement between the employee and employer giving the employee proprietary rights. The Patent Law also provides under Section 134 that if there is no agreement between an employer and an employee as to whether the employee is entitled to consideration for service inventions, and to what extent and under which conditions, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, shall determine these issues. Section 135 of the Patent Law provides criteria for assisting the Committee in making its decisions. According to case law handed down by the Committee, an employee’s right to receive consideration for service inventions is a personal right and is entirely separate from the proprietary rights in such invention. Therefore, this right must be explicitly waived by the employee. A decision handed down in May 2014 by the Committee clarifies that the right to receive consideration under Section 134 can be waived and that such waiver can be made orally, in writing or by behavior like any other contract. The Committee will examine, on a case by case basis, the general contractual framework between the parties, using interpretation rules of the general Israeli contract laws. Further, the Committee has not yet determined one specific formula for calculating this remuneration, nor the criteria or circumstances under which an employee’s waiver of his right to remuneration will be disregarded. Similarly, it remains unclear whether waivers by employees in their employment agreements of the alleged right to receive consideration for service inventions should be declared as void being a depriving provision in a standard contract. We generally enter into assignment-of-invention agreements with our employees pursuant to which such individuals assign to us all rights to any inventions created in the scope of their employment or engagement with us. Although our employees have agreed to assign to us service invention rights and have specifically waived their right to receive any special remuneration for such service inventions beyond their regular salary and benefits, we may face claims demanding remuneration in consideration for assigned inventions.

Risks Related to Our Ordinary Shares

Our share price may be volatile.

Our ordinary shares were first offered publicly in our initial public offering in April 2015 at a price of $10.00 per share, and our ordinary shares have subsequently traded as high as $181.38 and as low as $8.10 through March 15, 2022. The market price of our ordinary shares may continue to fluctuate substantially as a result of many factors, including:

- actual or anticipated variations in our and/or our competitors’ results of operations and financial condition;
- variance in our financial performance from the expectations of market analysts;
- announcements by us or our competitors of significant business developments, changes in service provider relationships, acquisitions, strategic relationships or expansion plans;
- changes in the prices of our solutions;
- our involvement in litigation;
- our sale of ordinary shares or other securities in the future;
- market conditions in our industry;
- changes in key personnel;
- the trading volume of our ordinary shares;
- changes in the estimation of the future size and growth rate of our markets; and
- general economic and market conditions;

In addition, recently, the stock markets have experienced extreme price and volume fluctuations. Broad market and industry factors may materially harm the market price of our ordinary shares, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. If we were involved in any similar litigation, we could incur substantial costs and our management's attention and resources could be diverted. Furthermore, share price volatility may impact the fair value of the warrants granted to Amazon and as a result may impact revenues and profits.

We have never paid cash dividends on our share capital, and we do not anticipate paying any cash dividends in the foreseeable future.

We have never declared or paid cash dividends on our share capital, nor do we anticipate paying any cash dividends on our share capital in the foreseeable future. We currently intend (subject to any extraordinary market conditions that might arise) to retain all available funds and any future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our ordinary shares should be investors' principal expected source of gain for the foreseeable future. To the extent that volatile or depressed market conditions (whether in the wake of the coronavirus outbreak or otherwise) reduce the trading price of our ordinary shares substantially for an extended period of time, we may potentially consider using a portion of our cash reserves for share repurchases. In addition to considerations related to corporate finance, Israeli law limits our ability to declare and pay dividends and may subject our dividends to Israeli withholding taxes. Furthermore, our payment of dividends (out of tax-exempt income) may retroactively subject us to certain Israeli corporate income taxes, to which we would not otherwise be subject.

As a foreign private issuer whose shares are listed on the Nasdaq Global Select Market, we may follow certain home country corporate governance practices instead of otherwise applicable SEC and Nasdaq requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.

As a foreign private issuer whose shares are listed on the Nasdaq Global Select Market, we are permitted to follow certain home country corporate governance practices instead of those otherwise required under the corporate governance standards for U.S. domestic issuers. We currently follow Israeli home country practices with regard to the (i) quorum requirement for shareholder meetings (25%, which is less than the one-third minimum required under the Nasdaq rules) and (ii) independent director oversight requirement for director nominations (the board as a whole, rather than an entirely independent nominating committee or only the independent directors, handles this under Israeli law). See "ITEM 16G. Corporate Governance." Furthermore, we may in the future elect to follow Israeli home country practices in lieu of the Nasdaq requirements on other matters, such as the requirement to hold separate executive sessions of independent directors or to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq corporate governance rules. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on Nasdaq may provide less protection than is accorded to investors of domestic issuers. See "ITEM 16G. Corporate Governance."

As a foreign private issuer, we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain Exchange Act reports.

As a foreign private issuer, we are exempt from a number of requirements under U.S. securities laws that apply to public companies that are not foreign private issuers. In particular, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act and we are generally exempt from filing quarterly reports with the SEC under the Exchange Act. We are also exempt from the provisions of Regulation FD, which prohibits issuers from making selective disclosure of material nonpublic information to, among others, broker-dealers and holders of a company's securities under circumstances in which it is reasonably foreseeable that the holder will trade in the company's securities on the basis of the information. These exemptions and leniencies will reduce the frequency and scope of information and protections to which you are entitled as an investor.

We are not required to comply with the proxy rules applicable to U.S. domestic companies, including the requirement applicable to emerging growth companies to disclose the compensation of our Chief Executive Officer and other two most highly compensated executive officers on an individual, rather than on an aggregate, basis. Nevertheless, the Companies Law requires us to disclose in the notice of convening an annual general meeting the annual compensation of our five most highly compensated office holders on an individual basis, rather than on an aggregate basis, as was previously permitted for Israeli public companies listed overseas. This disclosure is not as extensive as that required of a U.S. domestic issuer.

We would lose our foreign private issuer status if a majority of our directors or executive officers are U.S. citizens or residents and we fail to meet additional requirements necessary to avoid loss of foreign private issuer status. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We would also be required to follow U.S. proxy disclosure requirements, including the requirement to disclose more detailed information about the compensation of our senior executive officers on an individual basis. We may also be required to modify certain of our policies to comply with good governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we would lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

The market price of our ordinary shares could be negatively affected by future sales of our ordinary shares.

Future sales by us or our shareholders of a substantial number of ordinary shares in the public market, or the perception that these sales might occur, could cause the market price of our ordinary shares to decline or could impair our ability to raise capital through a future sale of, or to pay for acquisitions using, our equity securities.

Amazon is entitled to certain registration rights with respect to the 3,401,028 ordinary shares underlying new warrants that we issued to its affiliate on September 14, 2020, pursuant to a transaction agreement that we entered into with Amazon on that day. All shares sold pursuant to an offering covered by a registration statement will be freely transferable except if purchased by an affiliate. See “ITEM 10.C— Material Contracts— Agreements with Amazon— Transaction Agreement and Warrant” in this annual report.

In addition, 291,953 ordinary shares are issuable under currently vested and exercisable share options granted to employees and office holders as of December 31, 2021. We have filed registration statements on Form S-8 under the Securities Act registering our potential issuance of those ordinary shares under our share incentive plans, of which, as of December 31, 2021, there were options, restricted share units and warrants to purchase 1,758,614 shares outstanding. Shares included in such registration statements may be freely sold in the public market upon issuance, except for shares held by affiliates who have certain restrictions on their ability to sell.

As a public company, we are required to devote substantial time towards maintaining the effectiveness of our internal controls and to other compliance initiatives and corporate governance practices.

As a public company, and to a greater extent once we lost our status as an emerging growth company, we incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Stock Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel continue to devote a substantial amount of time to these compliance initiatives.

In particular, we are required to comply with the SEC’s rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our annual reports and provide an annual management report on the effectiveness of control over financial reporting. Additionally, as we are no longer an emerging growth company and qualify as a large accelerated filer, we must include an attestation report on internal control over financial reporting issued by our independent registered public accounting firm.

To maintain the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, we expect that we will need to continue enhancing existing, and implement new, financial reporting and management systems, procedures and controls to manage our business effectively and support our growth in the future. The process of evaluating our internal control over financial reporting will require an investment of substantial time and resources, including by our Chief Financial Officer and other members of our senior management. As a result, this process may divert internal resources and take a significant amount of time and effort to complete. Additionally, as part of management assessments of the effectiveness of our internal control over financial reporting required by Section 404(a) of the Sarbanes-Oxley Act, our management may conclude that our internal control over financial reporting is not effective due to our failure to cure any identified material weakness or otherwise, which would require us to employ remedial actions to implement effective controls. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404(a) or 404(b) in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion or issues an adverse opinion in its attestation as to the effectiveness of our internal control over financial reporting required by Section 404(b), investors may lose confidence in the accuracy and completeness of our financial reports and the trading price of our ordinary shares could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

Irrespective of compliance with Sections 404(a) and 404(b), any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. In order to implement changes to our internal control over financial reporting triggered by a failure of those controls, we could experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes.

Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets (which may be determined in part by the market value of our ordinary shares, which is subject to change) are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Based on historic and certain estimates of our gross income, gross assets and market capitalization (which may fluctuate from time to time) and the nature of our business, we believe we were not a PFIC for the taxable year ended December 31, 2021 and we do not expect that we will be classified as a PFIC for the taxable year ending December 31, 2022. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for our 2022 taxable year until after the close of the year. There can be no assurance that we will not be considered a PFIC for any taxable year. If we are characterized as a PFIC, our U.S. shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than as capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are U.S. Holders (as defined in “ITEM 10.E Taxation and Government Programs—U.S. Federal Income Taxation”), and having interest charges apply to distributions by us and the proceeds of sales of our ordinary shares. Certain elections exist that may alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as mark-to-market treatment) of our ordinary shares. For a more detailed discussion, see “ITEM 10.E Taxation and Government Programs - U.S. Federal Income Taxation - Passive Foreign Investment Company Considerations.”

Certain U.S. holders of our ordinary shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a “controlled foreign corporation”, or a CFC, under Section 957(a) of the Internal Revenue Code of 1986, as amended, or the Code.

A non-U.S. corporation is considered a CFC if more than 50 percent of (1) the total combined voting power of all classes of stock of such corporation entitled to vote, or (2) the total value of the stock of such corporation; is owned, or is considered as owned by applying certain constructive ownership rules, by United States shareholders who own stock representing 10% or more of the vote or (for the taxable year of a non-U.S. corporation beginning after December 31, 2017 and for taxable years of shareholders with or within which such taxable years of such non-U.S. corporation ends) 10% or more of the value on any day during the taxable year of such non-U.S. corporation (“10% U.S. Shareholders”). Generally, a 10% U.S. Shareholder of a CFC is required to include currently in gross income such 10% U.S. Shareholder’s share of the CFC’s “Subpart F income”, a portion of the CFC’s earnings to the extent the CFC holds certain U.S. property, and certain other new items under the Tax Cuts and Jobs Act of 2017, or the Tax Act. Such 10% U.S. Shareholders are subject to current U.S. federal income tax with respect to such items, even if the CFC has not made an actual distribution to such shareholders. “Subpart F income” includes, among other things, certain passive income (such as income from dividends, interests, royalties, rents and annuities or gain from the sale of property that produces such types of income) and certain sales and services income arising in connection with transactions between the CFC and a person related to the CFC.

Certain changes to the CFC constructive ownership rules introduced by the Tax Act may cause one or more of our non-U.S. subsidiaries to be treated as CFCs, may also impact our CFC status and, thus, may affect holders of our common shares that are United States shareholders. For 10% U.S. Shareholders, this may result in adverse U.S. federal income tax consequences, such as current U.S. taxation of Subpart F income and of any such shareholder's share of our accumulated non-U.S. earnings and profits (regardless of whether we make any distributions), taxation of amounts treated as global intangible low-taxed income under Section 951A of the Code with respect to such shareholder, and being subject to certain reporting requirements with the U.S. Internal Revenue Service. Any 10% U.S. Shareholder should consult its own tax advisors regarding the U.S. tax consequences of acquiring, owning, or disposing our common shares and the impact of the Tax Act, especially the changes to the rules relating to CFCs.

If equity research analysts do not publish research or reports about our business or if analysts, including short sellers, issue unfavorable commentary or downgrade our ordinary shares, the price of our ordinary shares could decline. Additionally, we may fail to meet publicly announced financial guidance or other expectations about our business, which would cause our ordinary shares to decline in value.

The trading market for our ordinary shares relies in part on the research and reports that equity research analysts publish about us and our business. The price of our ordinary shares could decline if one or more securities analysts downgrade our ordinary shares or if one or more of those analysts issue other unfavorable commentary or cease publishing reports about us or our business. The market price for our ordinary shares has been in the past, and may be in the future, materially and adversely affected by allegations made in reports issued by short sellers regarding our business model, our management and our financial accounting. If our financial results for a particular period do not meet our guidance or if we reduce our guidance for future periods, the market price of our ordinary shares may decline.

Risks Related to Our Operations in Israel

Our headquarters, manufacturing and other significant operations are located in Israel and, therefore, our results may be adversely affected by political, economic and military instability in Israel.

Our headquarters, research and development and manufacturing facility, and the primary manufacturing facilities of our third-party manufacturers, are located in Israel. In addition, the majority of our key employees, officers and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. In recent years, these have included hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza Strip, both of which resulted in rockets being fired into Israel, causing casualties and disruption of economic activities. In the latest round of hostilities, which took place in May 2021, some Israeli Arabs participated in attacks within Israel at the same time at which Hamas attacked Israel, which opened up an internal front within Israel that could potentially recur in the future and further destabilize the economic environment within Israel during a military conflict. In addition, Israel faces threats from more distant neighbors, in particular, Iran. Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government is currently committed to covering the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained, or if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our business. While we have commenced implementation of a business continuity plan which provides for alternative sites outside of Israel, there can be no assurance that such plan will be successful. Any armed conflict involving Israel could adversely affect our operations and results of operations.

Further, our operations could be disrupted by the obligations of personnel to perform military service. As of December 31, 2021, we had 499 employees based in Israel, certain of whom may be called upon to perform up to 54 days in each three year period (and in the case of non-officer commanders or officers, up to 70 or 84 days, respectively, in each three year period) of military reserve duty until they reach the age of 40 (and in some cases, depending on their specific military profession, up to 45 or even 49 years of age) and, in certain emergency circumstances, may be called to immediate and unlimited active duty. Our operations could be disrupted by the absence of a significant number of employees related to military service, which could materially adversely affect our business and results of operations.

Several countries, principally in the Middle East, restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies whether as a result of hostilities in the region or otherwise. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods based on Israeli government policies. Such actions, particularly if they become more widespread, may adversely impact our ability to sell our solutions.

In addition, the shipping and delivery of our systems and ink and other consumables from our manufacturing facilities and those of our third-party manufacturers in Israel could be delayed or interrupted by political, economic, military, and other events outside of our reasonable control, including labor strikes at ports in Israel or at ports of destination, military attacks on transportation facilities or vessels, and severe weather events. If delivery and installation of our products is delayed or prevented by any such events, our revenues could be materially and adversely impacted.

The tax benefits that are available to us under Israeli law require us to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.

We are eligible for certain tax benefits provided to "Benefited Enterprises" under the Israeli Law for the Encouragement of Capital Investments, 1959, or the Investments Law, until 2018. Beginning in January 2019, and with respect to our taxable results from 2019 onwards, we and our Israeli subsidiary are furthermore eligible to apply the terms of the Investments Law as they relate to a "Preferred Enterprise," or PE, and/or a "Preferred Technological Enterprise," or PTE. In order to remain eligible for the tax benefits for Benefited Enterprises for our Israeli subsidiary's taxable results until 2018, and for its taxable results from 2019 onwards with respect to a PE or PTE, we must continue to meet certain conditions stipulated in the Investments Law and its regulations, as amended. If these tax benefits are reduced, cancelled, or discontinued, our Israeli taxable income would be subject to regular Israeli corporate tax rates and we may be required to refund any tax benefits that we have already received, plus interest and penalties thereon. The statutory corporate tax rate for Israeli companies is 23% from January 1, 2018 and onward. Additionally, if we increase our activities outside of Israel through acquisitions or otherwise through our Israeli subsidiary, our existing or expanded activities might not be eligible for inclusion in existing or future Israeli tax benefit programs. The Israeli government may furthermore independently determine to reduce, phase out, or eliminate entirely the benefit programs under the Investments Law, regardless of whether we then qualify for benefits under those programs at the time, which would also adversely affect our global tax rate and our results of operations. See "ITEM 5. Operating and Financial Review and Prospects— Taxation and Israeli Government Programs Applicable to our Company — Law for the Encouragement of Capital Investments, 5719-1959."

We have received and may receive further Israeli government grants for certain research and development activities. The terms of those grants restrict our ability to transfer manufacturing operations or technology outside of Israel.

Our research and development efforts have been financed in part through grants from the Israeli National Authority for Technological Innovation, or the Innovation Authority (previously known as the Israeli Office of the Chief Scientist). Prior to 2015, we received various grants from the Innovation Authority, all of which we repaid. In 2020 and 2021, we received new commitments from the Innovation Authority for non-royalty bearing grants to reimburse us for up to 55% of our research and development expenses in connection with our projects, in amounts of NIS 1.97 million and NIS 2.02 million, respectively (approximately $0.61 million and $0.65 million), in the aggregate. To date, we have received from the Innovation Authority NIS 1.51 million (approximately $0.45 million) of this new committed amount. We must comply with the requirements of the Encouragement of Research, Development and Technological Innovation in the Industry Law, 5744-1984 (formerly known as the Law for the Encouragement of Research and Development in Industry 5744-1984), and related regulations, collectively referred to as the Innovation Law, in connection with that new funding and any past funding that we had received from the Innovation Authority.

When a company develops know-how, technology or products and related services using grants provided by the Innovation Authority, the terms of those grants and the Innovation Law, among others, restrict the transfer outside of Israel of (i) such Innovation Authority-supported know-how (including by a way of license for research and development purposes), (ii) manufacturing or manufacturing rights of such products, and (iii) such technologies, without the prior approval of the Innovation Authority. We may not receive those approvals.

The restrictions set forth under the Innovation Law, to which we are subject (even after repaying grants we have received) include:

- *Transfer of know-how outside of Israel*. Transfer of the know-how that was developed with the funding of the Innovation Authority outside of Israel requires prior approval of the Innovation Authority, and, if approved, will require the payment of a redemption fee, which cannot exceed 600% of the grant amount plus interest. Upon payment of such fee, the know-how and the production rights for the products supported by such funding cease to be subject to the Innovation Law.

- *Local manufacturing obligation.* The terms of the grants under the Innovation Law require that the manufacturing of products resulting from the Innovation Authority funded programs are carried out in Israel, unless a prior written approval of the Innovation Authority is obtained. Such approval may be given in special circumstances and upon the fulfillment of certain conditions set forth in the Innovation Law, including payment of increased royalties. Such approval is not required for the transfer of less than 10% of the manufacturing capacity in the aggregate, and in such event, a notice to the Innovation Authority is required.

- *Certain reporting obligations*. A recipient of a grant or a benefit under the Innovation Law is required to notify the Innovation Authority of events enumerated in the Innovation Law.

These restrictions and requirements for payment may impair our ability to sell our technology assets outside of Israel or to outsource or transfer manufacturing activities with respect to any product or technology outside of Israel; however, they do not restrict the export of our products that incorporate know-how funded by the Innovation Authority. Furthermore, the consideration available to our shareholders in a sale transaction involving the actual transfer outside of Israel of technology or know-how developed with funding by the Innovation Authority pursuant to a merger or similar transaction may be reduced by any amounts that we are required to pay to the Innovation Authority. Failure to comply with the requirements under the Innovation Law may subject us to mandatory repayment of grants received by us, together with interest and penalties, as well as expose us to criminal proceedings.

Provisions of Israeli law and our articles may delay, prevent or otherwise impede a merger with, or an acquisition of, our company, even when the terms of such a transaction are favorable to us and our shareholders.

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a tender offer for all of a company’s issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of at least 95% of the issued share capital, otherwise, the acquirer may not own more than 90% of a company’s issued and outstanding share capital. Completion of the tender offer also requires approval of a majority in number of the offerees that do not have a personal interest in the tender offer, unless at least 98% of the company’s outstanding shares are tendered. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer (unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek appraisal rights), may, at any time within six months following the completion of the tender offer, petition an Israeli court to alter the consideration for the acquisition. See “Articles of Association — Acquisitions under Israeli Law” in Exhibit 2.2 to this annual report.

Our articles provide that our directors (other than external directors, to the extent there are any serving at the time) are elected on a staggered basis, such that a potential acquirer cannot readily replace our entire board of directors at a single annual general shareholder meeting.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers involving an exchange of shares, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including, in some cases, a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions. Moreover, with respect to certain share swap transactions in which the sellers receive shares in the acquiring entity that are publicly traded on a stock exchange, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no disposition of such shares has occurred. In order to benefit from the tax deferral, a pre-ruling from the Israel Tax Authority might be required.

It may be difficult to enforce a judgment of a U.S. court against us or our officers and directors, to assert U.S. securities laws claims in Israel or to serve process on our officers and directors.

We are incorporated in Israel. The majority of our directors and executive officers reside outside of the United States, and most of our assets and most of the assets of these persons are located outside of the United States. Therefore, a judgment obtained against us, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to effect service of process on these persons in the United States or to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a U.S. or foreign court. It may be difficult to enforce a judgment of a U.S. court against us, our officers and directors or the Israeli experts named in this prospectus supplement in Israel or the United States, to assert U.S. securities laws claims in Israel or to serve process on our officers and directors and these experts.

Your rights and responsibilities as a shareholder are governed by Israeli law, which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.

The rights and responsibilities of the holders of our ordinary shares are governed by our articles and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in U.S.-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders, and to refrain from abusing its power in the company, including, among other things, in voting at a general meeting of shareholders on matters such as amendments to a company’s articles of association, increases in a company’s authorized share capital, mergers and acquisitions and related party transactions requiring shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

ITEM 4. Information on the Company.

A. History and Development of the Company

Our History

Our legal name is Kornit Digital Ltd. and we were incorporated under the laws of the State of Israel on January 16, 2002. We shipped our first system in 2005. In April 2015, we completed our initial public offering, or IPO, pursuant to which we sold 8.165 million ordinary shares for aggregate gross proceeds (before underwriting discounts, commissions and expenses) of $81.65 million. Our ordinary shares began trading on the Nasdaq Global Select Market, under the symbol “KRNT,” on April 2, 2015. On January 31, 2017, June 18, 2019, September 21, 2020 and November 23, 2021, we completed follow-on offerings pursuant to which we sold approximately 2.3 million, 5.0 million, 3.0 million and 2.3 million ordinary shares, respectively, for aggregate gross proceeds (before underwriting discounts, commissions and expenses) of $38.0 million, $137.3 million, $168.0 million and $352.9 million, respectively. In addition, on September 21, 2020 and November 23, 2021, Amazon sold approximately 1.7 million and 0.7 million ordinary shares, respectively, pursuant to exercise of their warrants, for aggregate gross proceeds of $95.0 million and $102.9 million, respectively.

As of December 31, 2021, we had approximately 1,200 active customers globally. As of December 31, 2021, we had 882 employees located primarily across four regions: Israel, America, Europe and Asia Pacific. In the year ended December 31, 2021, we generated revenues of $322.0 million, representing an increase of 66.6% over the prior fiscal year. In the year ended December 31, 2021, we generated 68.2% of our revenues from the Americas region, 24.5% from the Europe, Middle East and Asia (“EMEA”) region, and 7.3% from the Asia Pacific region.

We are subject to the provisions of the Israeli Companies Law, 5759-1999. Our principal executive offices are located at 12 Ha’Amal Street, Rosh Ha’Ayin 4809246, Israel, and our telephone number is +972-3-908-5800. Our website address is www.kornit.com (the information contained therein or linked thereto shall not be considered incorporated by reference in this annual report). Our agent for service of process in the United States is Kornit Digital North America Inc., located at 480 South Dean Street Englewood, NJ 07631, and its telephone number is (262) 518-0200. As a company whose ordinary shares are registered under the Exchange Act, we report publicly to the SEC. The SEC maintains an Internet site (http:// www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Principal Capital Expenditures

Capital expenditures in the years ended December 31, 2019, 2020 and 2021 were principally used for the purchase of property, plant and equipment ($5.4 million, $13.5 million and $14.5 million in 2019, 2020 and 2021, respectively). The aggregate amount for 2019, 2020 and 2021 included approximately $2.5 million paid for the land for our new 6,400 square meter manufacturing and ink storage facility in Kiryat Gat, Israel, for which construction began in January 2019. The construction of that new facility in Kiryat Gat, Israel was completed in January 2022. The total cost for land, construction of the facility, design and installation of the production line, is approximately NIS 69 million (approximately $22 million based on current exchange rates). We are financing the construction of that facility from cash on hand. Our significant capital expenditures for the acquisition of interests in other companies within the last three years and through the current time are described below.

On February 7, 2019, we consummated an asset purchase from Hirsch Solutions Inc., our former primary distributor in the United States and Canada, which accounted for 18% and 15% of our revenues in the years ended December 31, 2017 and 2018, respectively, to purchase remaining Kornit business assets related to the former distribution agreement between the companies. On the closing date, our company, through our wholly owned subsidiary Kornit Digital North America Inc., took ownership of relevant Kornit-related customer business assets as well as remaining inventory of systems and ink. Under the related acquisition agreement, the total consideration was $4.7 million, which we paid in cash.

On August 11, 2020, we completed the acquisition of Custom Gateway, an innovative technology provider of cloud-based software workflow solutions for on-demand production business models. Its platform supplements Kornit’s Konnect platform for visibility and control of print operations, and offers Kornit customers valuable business insights for agility in the face of market dynamics and disruption. The total consideration for that acquisition, which we paid in cash, was $16.9 million.

On August 10, 2021, we consummated the acquisition of the assets of Voxel8 and its advanced additive manufacturing technology for textiles. Voxel8’s technology allows for digital fabrication of functional features with zonal control of material properties, in addition to utilizing high-performance elastomers adhering to inkjet technology. The total consideration for that acquisition, which we paid in cash, was $15.0 million.

On January 25, 2022, we entered into a definitive agreement to acquire Lichtenau, Germany-based Tesoma GmbH, or Tesoma. Tesoma is globally recognized for the high-quality engineering and performance of its cutting-edge textile curing solutions. The acquisition is expected to be completed on or before April 1, 2022, following the satisfactory completion of business transition and integration plans. The total consideration for that acquisition, which we will pay in cash, will be approximately Euro 11 million.

B. Business Overview

Industry Overview

The General Textile Industry

Textile is a flexible material formed using various processes, including weaving, knitting, crocheting or felting. This material may be used for manufacturing a broad range of conventional as well as advanced, finished goods, which may be broadly categorized (as related to the focus of our business) into fashion, apparel, home decoration and soft signage applications. According to a report published by Statista in 2021, the value of the global apparel retail market totaled $1.4 trillion in 2020 and was forecasted to total $1.55 trillion in 2021. According to the same report, the market value is projected to be $1.8 trillion in 2023, reflecting a compound annual growth rate (CAGR) of 8.7% from 2020 to 2023. Increasing income per capita, favorable demographics and changing consumers’ shopping habits are expected to drive demand in the apparel market.

The global printed textile industry involves printing on fabric rolls, finished garments and unsewn pieces of cut fabric at various stages along the value chain in the production of goods for (as related to the focus of our business) fashion, apparel, home decoration and soft signage applications. According to The Future of Digital Textile Printing report published by Pira in September 2021, it is estimated that approximately 94% of the global output of printed textile in 2021 was carried out via analog methods of printing. According to the same Pira report, the global value of digital printed textile output is estimated to be approximately $4.3 billion in 2021 and is expected to grow to approximately $7.9 billion by 2026, reflecting a CAGR of 12.7% in the five-year period from 2021 to 2026, mainly driven by changes in consumer demand, sustainability and brand needs to mitigate excess inventory. According to the same Pira report, digital textile output volume is expected to grow at a CAGR of 13.9% for the five-year period from 2021 to 2026, despite challenges brought on by the COVID-19 pandemic.

COVID-19 Impact on the Fashion Industry’s Supply Chain

In 2020, the textile industry found itself in the midst of an unprecedented disruption caused by the COVID-19 pandemic, which resulted in pressure on revenues and margins while at the same time creating new opportunities and fueling existing ones. The impact of the COVID-19 pandemic on the textile industry has been swift and significant from the perspective of both consumer behavior and supply chains.

Many global supply chains continue to experience disruptions and pressures from multiple directions including increased shipping costs, shortages in commodities and materials, and extremely long lead times. The fashion industry, which is heavily reliant on extensive supply chains, must now cope with additional new pressures on its business models. According to Oxford Economics’ Global Risk Survey, approximately half of all global businesses suffered supply chain disruptions in 2021, with one in eight severely affected. In addition to the impact of the COVID-19 pandemic, shifting industry dynamics, new trade agreements and continuously changing operational challenges are all contributors to these conditions facing the industry.

Looking forward, supply chain challenges are expected to remain, or even increase. Surges in global demand, combined with limited capacity of freight services in ports and terminals, are both increasing pressure and challenges across the global supply chain. As a result, there are growing concerns that increased levels of disruption and price hikes may last not only in the near future, but possibly represent a new steady-state, setting new standards for the global fashion industry.

Consumer demand is surging in Western countries, emerging from long periods of lockdowns and financial uncertainty. This rising demand is putting massive pressure on fashion brands as they struggle to procure products on time, manufacture efficiently and ship it in a timely manner. For example, in August 2021, Adidas reported that pandemic-related supply chain disruptions could cost the company up to $586 million in sales. Consumer demand for extremely-fast delivery, both online and in-store, combined with the demand for sustainable materials and production / manufacturing processes, are putting significant pressure on companies’ supply chains.

Given the implications of the fashion industry's extensive supply chain, many fashion executives are working hard to find solutions, such as in-house distribution, moving production closer to the consumer (nearshoring and onshoring), cutting-edge inventory management and working hard to secure early access to raw material supplies. For example, several European companies increased their nearshoring efforts in the last two years, moving textile manufacturing from China to Turkey (for example) to minimize delays. In the short, mid and longer term, fashion brands will need to focus great efforts into improving, or completely re-building their supply chains to become more agile, digital and flexible by implementing new strategies including on-demand manufacturing and nearshoring

Mega Trends Affecting Our Industry

Industry 4.0

Digitization of manufacturing is transforming the way products are being produced. This transformation process is also broadly referred to as Industry 4.0, representing the fourth industrial revolution occurring in manufacturing. This fourth industrial revolution is primarily about full digitization and the move away from analog production methods, as well as cloud network connectivity, and the introduction of autonomous systems fueled by data and machine learning. As a result of the support of machines that keep getting smarter as they get access to more data, the increased use of affordable robotics in production environments, and the data-connected logistics supply chain, future factories are predicted to become more efficient, productive and less wasteful. The fashion and apparel industry segments in which we operate have been operating for decades in traditional, analog and labor-intensive models, which we expect will yield to what could be referred to as Textile 4.0. This market landscape minimizes the efficacy of forecasting demand, fashion cycles, and reliance on complex, widely dispersed supply chains that slow fulfillment to weeks, months, and beyond. We believe that in this new construct, demand will become clear on a moment's notice, and consumers will gravitate towards fulfillers and brands that can satisfy those demands in a similarly quick manner. On the supplier side, the benefit here can best be illustrated by suppliers only needing to "stock" virtual store shelves rather than physical ones (which carries enormous opportunity in eliminating large, often unsold inventories), but conversely, they must be willing and able to produce the virtual product being chosen by the consumer. We believe this where digital, on-demand production capabilities become essential—the more responsive and agile in response to demand data, the better.

E-Commerce Boom

E-commerce has grown globally at an unprecedented rate and is transforming retailing, across industries. Around the world, e-commerce is entirely changing the way people shop. Access to global shopping opportunities allows consumers to save time and money and affords them greater choice. E-commerce giants and technology vendors continue to invest in advanced technologies such as virtual reality, 3D modelling, augmented reality, and artificial intelligence in a continuous effort to improve the online shopping experience.

According to McKinsey, the rise of COVID-19 accelerated the trend towards e-commerce. In the first quarter of 2020, e-commerce penetration in the United States doubled the prior 10 years' penetration, from about 15% to more than 30%. Additionally, 75% of U.S. consumers tried new stores, websites, or brands during the COVID-19 crisis, and 60% of those consumers expect to use those stores/brands again after the crisis has abated. According to McKinsey's "State of Fashion 2022" report, 32% of fashion executives mentioned digital as the biggest opportunity for the fashion industry in 2022. The report refers to digital mostly in the sense of online brand presence and embracing digital innovations.

In recent years, the creators' economy has been gaining momentum and rapidly growing its market size to an estimated market of $104B, according to Influencer Marketing Hub. The creator economy is the collection, creation, distribution, and monetization of content in the digital world. At the core of the creator economy are social media channels and ecommerce platforms allowing creators to monetize their content and traffic. Following the ecommerce boom and its evolving connectivity with social media platforms, creators-focused ecommerce channels have emerged to offer services like influencer marketplaces, merchandise stores, and tipping platforms to help content creators leverage the traffic they create and the connection with their audience. Easier monetization tools and growing opportunities are fueling the growth of the creators' community, in which players can count on income generated online from their content. In fact, 43% of surveyed creators by Influencer Marketing Hub stated they are making a liveable wage from their content at $50k in annual income or higher.

eMarketer indicated that following a 25.7% increase in 2020, retail ecommerce sales were projected to grow by 16.8% globally to $4.9 trillion in 2021, at a rate of 21.5% in Central and Eastern Europe, 19.8% in the Middle East and Africa, 19.4% in Latin America, 18.1% in North America, 16.9% in Western Europe and 15.5% in Asia-Pacific. Statista projects the 2021 to 2024 CAGR for retail e-commerce sales worldwide to be 9.3%. According to Statista, the most common reasons consumers cited for purchasing online included direct delivery to their homes, cheaper prices, convenience and 24-hour availability.

According to Digital Commerce 360, e-commerce share of total U.S. apparel sales in 2020 grew faster than in previous years, accounting for 46.0% compared to 30.1% and 26.6% in 2019 and 2018, respectively. Online U.S. apparel sales grow year over year by 21.8% while offline U.S. apparel sales declined by nearly 40% in 2020.

Recently, a movement towards the 3rd iteration of the internet has gained significant momentum. Each of the two past iterations of the internet was created to solve existing challenges associated with the previous or outdated version. The latest iteration, Web 3.0, focuses on a more decentralized and open internet where users and creators have equal input and are able to share value more efficiently. Web 3.0's impact on e-commerce focuses upon fair value distribution and building an open economy for creators, consumers, and manufacturers. The core pillars of ecommerce in the era of Web 3.0 support an open economy which thrives on trust, transparency, and borderless exchange, eventually creating an environment where buyers and sellers can better and more efficiently interface with one another. Web 3.0 drives ecommerce players to rethink business models and build new ones around content management, partnerships, licenses and subscription, memberships, advertisements and user experience. New technologies like VR and AR, used in Metaverses and in the physical world, are creating whole new shopping experiences for consumers. These new shopping experiences drive an increase in consumer spending. Shopify reports that interactions with products having AR content showed a 94% higher conversion rate than products without AR. According to research performed by Technavio, the global AR and VR market is expected to increase by $162.7 billion from 2020 to 2025 and the market's growth is expected to increase at a CAGR of 46%.

Traditional Retail Meltdown

For the last decade, various factors have resulted in the shrinking, bankruptcy/reorganization, or total closing of numerous traditional North American retailers. Announcements from major retailers of plans to either discontinue or greatly scale back their retail presence peaked during 2020 when worldwide lockdowns kept consumers away from stores and continued during 2021. For example, Lord & Taylor (established 1826) filed for bankruptcy in August 2020, and announced it was shuttering all stores a month later. A year later, Lord & Taylor brand was revived under a new owner as a digital collective store. Other major retailers declaring bankruptcy in 2020 and 2021 included ABC Carpet & Home, Lorna Jane, Sequential Brands Group, Global Brands Group USA, Alex and Ani, The Collected Group, Christopher & Banks, Loves Furniture, Brooks Brothers, J.C. Penney, Neiman Marcus, J. Crew Group, Stein Mart, and Tailored Brands (which owns Men's Wearhouse and Jos. A. Bank).

The primary factors affecting the continued closing of traditional retail stores are the shift in consumer habits towards online shopping, a less than inspiring shopping experience at traditional brick-and-mortar stores, retailers' inability to sell trend-right apparel, and the ongoing pile-up of unsold inventory, which has put pressure on profits. Additional recent examples are the announcement by Inditex (which has several brands, most prominent of which is Zara) that it would close up to 1,200 stores worldwide in 2021 to focus on digital growth; the announcement by Gap and Banana Republic that they will close 30% of their stores in North America by January 2024; and the announcement by Diane von Furstenberg that it is closing all of its stores and moving to a digital-only model, while reducing up to 75% of its staff. Traditional retailers are struggling to find the right balance between supply and demand, so that they do not end up with too much inventory on their shelves or in stock rooms, or conversely, running out of their best-selling products without the ability to replenish that stock immediately. When merchandise piles too high, traditional retailers are forced to use steep discounts to deplete inventory and make room for next season's goods. Further, ecommerce share gains continue to put pressure on traditional retail stores that are finding it difficult to compete with the level of selection, price, service, and convenience provided by many of the pure-play ecommerce companies or scaled omni-channel retailers.

The pandemic has only accelerated the fall of several retailers, which have faced dwindling sales and growing debt over the past few years as consumer preferences changed. Coresight Research estimated that as many as 10,000 stores in the U.S. were to be shuttered for good in 2021, following a record of 12,200 store closings in 2020, according to CoStar Group, which represents 159 million square-feet of retail space.

COVID-19 has accelerated previously existing trends: companies that had embraced digital transformation and Industry 4.0 production and delivery methods saw growth while those reliant upon more traditional, analog production and delivery methods lagged. We believe this emphasizes the need for digital transformation; the more an enterprise's business model depends on physical storefronts and multinational supply chains, the more susceptible that enterprise is to fallout from major economic disruptions, as seen in 2020 and 2021.

Social Media Platforms

Social platforms, historically categorized into media and networks (which categories have merged in recent years), have changed the industrial and business landscape, both for companies that have adopted them and for those that have not. Social media platforms have a powerful impact on the ways in which individuals and organizations are communicating with each other, and a powerful impact on consumer trends, demand and brand perception. The number of social media users, according to DataReportal's Digital 2021: Global Overview Report from January 2021, was 4.2 billion, representing 53% of the total world population. In the U.S. alone, according to Statista data from July 2021, roughly 89% of the population used social media. This mainstream effect has a dramatic impact on the ability of small and micro brands, some of which are initiated by individuals or organizations that are leveraging their social influence status to inspire individuals who, in turn, purchase those brands' products, to achieve ultra-fast recognition and exponential growth at the expense of traditional players, which need to develop agility in order to connect with consumers.

Social media platforms gained traction over the course of the COVID-19 pandemic for discovering and shopping for fashion, as customers unable to visit stores or socialize in-person during global lockdowns spent more time at home scrolling through their feeds. 74% of consumers say that they are now more influenced to shop via social media than they were before the pandemic, and 70% cite clothing as one of the product categories they shop for most on social media, according to McKinsey's "State of Fashion 2022" report.

Recently, the Metaverse concept has gained a lot of attention and is regarded by many as the evolution of the traditional social media model. Simply described, a Metaverse is a hybrid world between the real and digital spaces, where virtual reality, augmented reality, and artificial intelligence work together to offer users a more immersive online experience, giving people a more tangible sense of presence and further differentiating it from traditional social media platforms. As this trend grows in popularity, 72% of U.S. consumers report that they have accessed virtual worlds in the last 12 months, according to The Business of Fashion report "The Opportunity in Digital Fashion and Avatars".

As the future Metaverse reshapes ecommerce and social media platforms, the fashion industry is evolving rapidly to fit the new digital spaces and implications:

- Digital environments have become increasingly immersive and portable, enabling fashion companies to convey their brand story in new ways while evolving their acquisition and retention strategies.

- Digital fashion assets will become widespread and more desirable, as greater amounts of time are spent in worlds that are digital, according to The Business of Fashion Report "The Opportunity in Digital Fashion and Avatars"

- Brands have an increasing opportunity to monetize digital assets and manage their scarcity.

- Virtual worlds enable participants to curate many identities, and brands can shape how these identities are communicated.

Another important evolution of traditional social media is strongly tied to the increasing popularity of gaming, as the video games market already valued at approximately $180 to $200 billion according to The Business of Fashion. Game developers and social media platforms quickly discovered that players enjoyed the personal satisfaction that came with posting their high scores and game achievements. Once they identified the mutual value, the two platforms started helping one another and adapted synchronously. Many communities were developed around different games and worlds within the gaming environments, enabling a new platform for global communication.

In recent years, gaming companies saw the potential multiplayer games had to become an even more interactive platform than social media. Today, many online games function as social platforms for people to interact with their friends and playing the actual game has become a lower. Games like Fortnite, Minecraft and Roblox are examples of how online games can create entire gaming communities and build robust social media networks. Online video games are evolving to become an alternative to traditional social media platforms, and as a meaningful interactive internet marketplace.

Sustainability

The need to reduce or contain the ecological footprint of the textile and apparel industry is affecting the entire industrial system. The urgency for change has flowed through from political and environmental activists and scientists, into mainstream government regulators and business leadership across the globe. A sustainable industrial system requires formulation of new strategies and thinking, integrated into business and operational frameworks around sustainable manufacturing, supply chain design, sustainability performance measurement and ongoing management. Industry is now considered not only part of the problem but also part of the solution. From a practical point of view, as it comes to sustainability strategies, companies are focused on technology improvements enabling cleaner production, pollution prevention, and other sustainable manufacturing practices.

The pandemic crisis has emphasized the need to move to more sustainable and responsible ways of working in all areas of the value chain. World Wildlife Federation study presented a 71% rise in online searches for “sustainable goods” globally, underscoring the mindset shift that has begun over the last few years.

Among the biggest environmental impacts of the textile industry, two noticeable impacts are water pollution and waste of both water and garments.

In some of the countries in which garments are produced, untreated toxic wastewaters from textile factories are discharged directly into the rivers. This is extremely harmful to aquatic life and the health of millions of people living near to those riverbanks. The contamination also reaches the sea and eventually spreads around the globe. 200,000 tons of dyes are lost to effluents every year according to an article published by Sustain Your Style. According to World Economic Forum the textile industry is also the second largest consumer of water. According to Sustain Your Style data, up to 200 tons of freshwater can be required per ton of dyed fabric.

Consumer behavior and frequently changing fashion trends are making it difficult for fashion brands to predict the volume of items that will be purchased, causing, among other things, 30% of garments to be overproduced, according to the Australian Circular Textile Association (ACTA).

High overproduction percentage drive massive inventory leftovers and a negative pressure on financial performance due to reliance on cost-per-unit driven traditional supply chains which are designed for production of mass volumes. According to McKinsey’s “State of Fashion 2021” report, 40% of garments were sold at a discounted price, creating billions of dollars of lost revenues and margin. Redundant inventory and lack of adequate recycling infrastructure cause textile waste to rise and become an industry wide problem.

Considering the size of the textile industry — one of the largest industries in the world—sustainability of the industry is important, but, on top of that, companies can also make a huge difference environmentally, economically and socially. COVID-19 increased the importance of sustainability in purchasing decisions, and the rise of circular business models. The textile industry has many reasons to place an emphasis on sustainability, including reduced costs, protection of the environment and sustained goodwill from its customers for eco-friendly practices. As one of the world’s most water and air polluting industries, sustainability issues in the textile/apparel industry continue to receive great attention. Currently, less than 10% of the global textile market is composed of recycled materials, according to Preferred Fiber & Materials Market Report 2021.

In September 2021, we released our 2020 Impact Report on Environmental, Social and Corporate Governance: Progress, Action and Future Goals, or the 2020 Impact Report, in which we set forth the sustainability goals and action plan which we are targeting for 2026: reducing overproduction by 1.1 billion apparel items; reducing greenhouse gas emissions by 17.2 billion kilograms; and saving 4.3 trillion liters of water. Our 2020 Impact Report discussed our policies and practices in various environmental, social and ethical matters, including corporate governance, climate change risks, environmental compliance, employee health and safety practices, human capital management, and workforce inclusion and diversity. Formulated in accordance with the Global Reporting Initiative Standards and Sustainability Accounting Standards Board, the Impact Report is a central part of our overarching ESG strategy that places environmental action and a minimized ecological footprint at the front and center of our business. This strategy transcends our activities and efforts across all departments.

As pioneers of digital innovation in the fashion industry, we aspire to create a ripple effect of change, enabling our customers, their customers, partners, and communities to maximize their positive impact on the environment and the planet.

Mega Consumer Trends Affecting our Industry

Personal Expression

We believe that modern consumers, impacted by the mega industry trends, are increasingly seeking the ability to express their identities and beliefs through the everyday choices that they make. If in the past it was mainly about the choice of brand affiliation that was considered “appropriate” for their self-image, consumers are now seeking new and creative ways to express their identities through unique, customized or personalized impressions, styles, and messages – whether affiliated with their favorite brands, through the creation of their own “private brands” or via affiliation with unique “no brand” designed goods. According to Facebook’s data, 72% of US fashion shoppers say at least one form of personalization increases their likelihood of making a purchase.

Younger consumers are more and more concerned with social and environmental causes, as many increasingly back their beliefs with their tightly coupled expression and consumption habits, favoring goods and brands that are aligned with their personal, social and environmental values and avoiding those that do not.

In the wake of COVID-19, expressive casual wear has also become a growing trend as consumers are spending more time working from home, or in a hybrid mode.

Instant Gratification

Modern consumers seek solutions faster and easier than ever before, catalyzed by the explosive growth of technology and mobile applications usage. This shift has given way to an on-demand economy where immediate gratification has become the standard across industries, in the form of instant arrival rides in the transportation industry, unlimited on-demand video streaming, minimal wait time for food deliveries, or in the case of retail, instant visibility and availability of product and inventory, and ultra-fast delivery. Consumers expect to be serviced almost instantaneously and are rewarding the brands that understand and meet their instant gratification needs. According to “The Future of Commerce Trend Report 2022” by Shopify, one of the most important qualities valued by online shoppers is estimated time of delivery, as 68% of online shoppers are influenced by estimated time of delivery, and expect either same-, next-, or two-day delivery. According to Statista, same-day shipping market in the U.S. is forecasted to exceed $10.6 billion in 2022, representing an approximately 80% increase from 2019, and is expected to reach over $15.6 billion in 2024. Furthermore, in 2021, 37% of North American shoppers, as well as 32% of European and Middle Eastern, abandoned a purchase because the estimated shipping time was too long.

According to the merchants surveyed in Internet Retailer’s 2019 Top 1,000 (North American online retailers), 65.4% offer free shipping on at least some orders, and 17.5% offer free shipping on all orders, and more than 50% offer the option to pay for next-day delivery.

This change in consumer behavior is causing retailers to evaluate ways to alter their approach towards their entire supply chain, with high focus on adopting on-demand production, improved inventory management and an efficient and scalable fulfilment infrastructure. In addition to retooling their internal fulfilment capabilities, many retail brands have begun to leverage the capacity of third-party online stores to meet customer demands for delivery speed and product availability.

Social Media Influence

With the rise of mega social platforms like YouTube and Instagram, and fueled by the widespread mobile device accessibility, influencer marketing continues to significantly impact social media and narrow the bridge between discovery, inspiration, and purchase. According to the IPSOS "How COVID-19 Fosters New Purchasing Behavior" report, half of adults, including 33% over the age of 55, tried a new technology in the wake of COVID-19 disruptions. McKinsey's "State of Fashion 2021" report emphasizes the importance of developing more engaging and social experiences to encourage consumers to connect, given the shifts in consumer behavior driven by COVID-19 over the past year. ODM Group finds 74% of consumers rely on social networks with their purchasing decisions (online and offline). According to the Nielsen Consumer Trust Index, 92% of consumers trust content by friends or acquaintances more than they trust brand content.

According to Morning Consult's "The Influencer Report" published in 2019, which surveyed more than 2,000 13-38-year-olds in the US, when asked what traits they consider when deciding which influencers to follow, the 88% of respondents were looking for influencers who are authentic and genuinely care about their interests. We believe this can explain why sustainable bloggers and green living influencers are becoming an increasingly popular subgroup. Many fashion influencers across the globe are using their platforms to promote ethical fashion brands, spread eco-conscious messages and encourage users to create a positive impact on the planet.

"Be Greener"

News articles and documentaries around rising seas, declining air quality and shrinking animal populations have become more commonplace in recent years. Sales of reusable coffee cups and water bottles have increased, plastic straws were banned in many bars and restaurants, and mega consumer brands like Evian and Coca-Cola have committed to manufacture from recycled materials. The impulse to "be greener" is clearly gaining momentum. According to Global Web Index's Connecting the Dots report from 2021 around 40% of the digital consumers surveyed said environmental concerns impact them the most when deciding to buy from a brand. Millennials are the ones driving the sustainable movement with their lifestyle and behavioral changes. According to the Deloitte 2020 Millennials Survey, Millennials and Gen Zs are inclined to spend their income on products and services from brands that speak about issues that resonate with them most, such as protecting the environment. Also, when asked on the essence of businesses, 31% mentioned improving and protecting the environment. According to Deloitte's Global Millennial Survey social impact and ethics are the most common reasons why millennials change their relationships with businesses. This trend has experienced a strong tailwind in 2020, with the impact of COVID-19 as consumers have become more aware of the fashion value chain environmental and social aspects like employees' vulnerability and safety. In fact, 55% of consumers expect fashion brands to care for the health of employees, according to McKinsey's "State of Fashion 2021" survey. Often coined the "green generation," many brands are starting to see the appeal of, and the opportunity to connect with their consumers through, these changes, rather than viewing the changes as a regulatory burden. Per a Stanford Social Innovation Review paper from 2018, more than 90% of CEOs surveyed state that sustainability is important to their company's success, and companies develop sustainability strategies, market sustainable products and services, create positions such as chief sustainability officer, and publish sustainability reports for consumers, investors, activists, and the public at large.

According to the Global Web Index study, 60% of Millennials (aged 22-35) said they would be more likely than any other generation to pay extra for ecofriendly or sustainable products. With plastic waste currently at the center stage of consumers' attention, it is likely just a matter of time before consumers better research the manufacturing processes and decoration techniques for their clothes, shoes and bags before buying them, which will increase pressure on brands to connect with the consumer by adopting eco-friendly printing and decoration methods that minimize water pollution, toxic chemicals use and other textile waste. While producers have clearly made overtures to this trend, such as the Greenpeace "Detox" campaign and the broader "Sustainable Development Goals" set forth by the United Nations, we believe that the growing attitudes among consumers (especially younger, emerging consumers) to favor responsible, sustainable practices will accelerate in the years to come, and fashion brands and fulfillers will find success by capitalizing on that demand.

According to Global Web Index, 72% of consumers across 20 countries said companies behaving sustainably was more important to them because of COVID-19. According to the World Business Council for Sustainable Development, this global trend is strongest in developing and rapidly developing markets, led by China, where 67% of respondents say they would be more likely to purchase products or services from a company with a good reputation for environmental responsibility, with 46% in Sweden, 52% in Australia, and 42% of respondents in the U.S.

Governments and brands are collaborating and joining efforts in promoting industry regulation to support eco-friendly global trends, including the imperatives of circularity, reducing overconsumption, ensuring transparency and traceability, and nearshoring or reshoring operations—eliminating the pollutions associated with transnational supply chains and transport, shrinking production and delivery times, and minimizing supply chain vulnerabilities to inoculate against disruptions and ensure resilience. According to Rebuilding a More Sustainable Fashion Industry After COVID-19 86% of textile facilities have been impacted by canceled or suspended orders in the wake of COVID-19, that resilience is a worthwhile goal for stakeholders throughout the textile value chain.

In August 2019, major fashion brands announced a Fashion Pact at the G7 Summit in France, outlining commitments focused on reducing the fashion industry's contribution to climate change. This was the first-time major industry players have set a level of ambition consistent with the UN Paris Agreement goal of keeping global temperature rise below 1.5 degrees Celsius. More than 30 companies signed the pact, including Kering, Gap, Nike, Adidas, H&M, and Chanel. The signatories committed to implementing Science Based Targets to achieve zero greenhouse gas emissions by 2050, including sustainable sourcing of raw materials and 100 percent use of renewable energy in their supply chains by 2030.

Implications on Fashion and Apparel Transformation, as it Relates to our Business

Regardless of size and specific segment, industry players in fashion and apparel, whether traditional brands, digital start-ups, new generation e-tailers, or different forms of customized designers, now need to be nimble, sustainable, think digital-first and achieve ever-faster speed to market. They need to connect to the end consumer for self-expression, take an active stance on social issues, satisfy consumer demands for ultra-transparency and sustainability, and ensure they invest in an omni-channel strategy, thereby enhancing their manufacturing productivity, supply chain resilience, lean inventory management, and their ability to respond to the immediate gratification needs of the evolving consumer. Traditional brands are beginning to self-disrupt their own business models, image and offering in response to the new breed of emerging high growth digital native brands that are accelerating, thanks to changing consumer preferences, growing appetite for self-expression, and instant gratification. We expect more traditional brands to follow suit on this omni-channel path of self-disruption, which will have a significant impact on their ability to connect with, and meet the needs of, consumers.

We believe the following objectives capture some of the key areas of focus, as they relate to our business, as traditional and new generation online-first fashion and apparel players continue to adapt their value propositions and operating models to the rapidly changing industry environment and consumer preferences. We believe these industry areas of focus will continue to fuel the growing need and demand for our innovative solutions:

- *Connect with consumers' need for self-expression via unique graphical and text designs*
- *Capture the moment, by shortening the time from inspiration and, design. to sellable product*
- *Connect virtual fashion with the physical world – from virtual design to a ready-to-wear garment and from a physical piece to a virtual representation*
- *Refine product assortments to focus on profitability and value*
- *Connect with consumers via personalization and customization offerings*
- *Implement a smart and lean inventory management strategy, while not compromising on design variety*
- *Develop in-season reactivity, in response to unexpected demand for specific offerings*
- *Respond to the sustainability demands of consumers and regulators*
- *Ensure resilience to sudden market shifts from unforeseen disruptions, as occurred with the pandemic*
- *Respond to consumers' immediate gratification needs*

Impact on the Industry Need and Demand for Operational Transformation

New generation start-up apparel and fashion businesses born and grown in digital and online retail and production, some of which are existing customers of our solutions, have already implemented successful full or partial on-demand production models as they establish their greenfield environments. We expect these businesses to continue scaling and perfecting their existing digital business and operational models, investing in front-end technologies to continue improving the online customer experience, and operationally scaling their partial or full on-demand production capabilities.

We believe that in order to address the focus areas identified above, traditional industry and brands will continue to examine and digitally transform their predominantly mass production and inefficient analog operating production models and supply chains, especially as it comes to managing their finished goods inventory levels, which remains a huge financial risk. Traditional companies have continued to invest “upstream the chain” in better predicting buying trends, consumer preferences, and demand via sophisticated big-data analytics, as they plan their collections and inventory levels; however, consumer demand is more volatile and difficult to predict than ever. To add to these difficulties, according to McKinsey's 2022 “State of Fashion” report, it is likely that logistics challenges will only intensify in 2022, with global surges in demand clashing with unpredictable pressures on freight services, ports and terminals. According to the same report, 87% of fashion executives indicated that they expect supply chain disruptions to negatively impact margins next year, further demonstrating the challenges with prediction-only production planning and the needed shift to a more agile, partial or full on-demand production model. Brands need to work with their suppliers to scale up nearshoring and reshoring activities to build production capacity and safeguard access to raw materials. As a result, a number of European companies doubled down on nearshoring efforts through the pandemic to minimize delays. We believe that industry players will continue to seek ways to adopt major changes to their business and operational models, supply chains, and—specifically as it relates to our business— in how they design, produce and decorate garments and apparel.

The below lists a number of key production gaps that prevent a successful transition to partial or full on-demand retailing models and that we believe traditional fashion and apparel manufacturers are looking to close as they plan their future marketing and production strategies:

Mass Customization and Personalization: The capability to manufacture a relatively high volume of product options, carrying unique designs, without tradeoffs in cost, delivery and quality. In a simplified way, the ability to cater demand to mass produce customizable products with unlimited designs, on a one-by-one basis, in a cost-efficient manner.

“Shorter Runs”: Mass production of smaller batches, most likely with higher number of order amounts, at a similar cost per garment structure achieved by producing large batches. This flexibility reduces finished good inventory risks by identifying buying patterns and responding to demand in a more accurate manner by replenishing stock in ultra-short cycles. The pressure for smaller batch sizes and on-demand replenishment is driven partly by profitability, but also by a desire for sustainability. In McKinsey’s “State of Fashion 2021” report, Louis Vuitton Chief Executive Michael Burke emphasized the importance of short runs and the made-to-order model: “The higher the percentage of made-to-order business, the less overproduction you’re going to get involved with. That’s the first thing that luxury needs to concentrate on; smaller runs, ideally a run of one.”

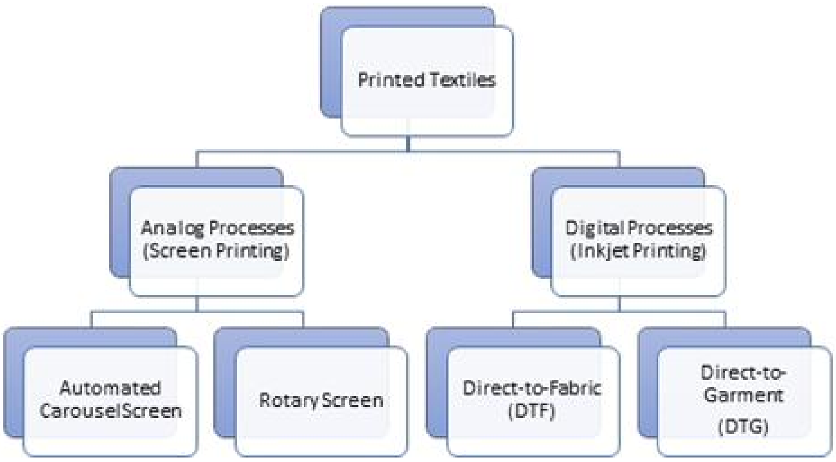
Proximity Production, Proximity Decoration and Nearshoring: Two decades ago, U.S. and European mass-market apparel brands and retailers shifted production to Asia to gain a cost advantage. Factors are changing this calculus by making it critical for companies to bring new styles to market more quickly and switch out lines mid-season. According to a 2018 survey published by McKinsey, 54% of purchasing managers surveyed in the US and the EU said that proximity to customers is becoming more important. In another study published by McKinsey, 60% of apparel procurement executives said that they expect that over 20% of their sourcing volume will be from nearshore by 2025. In addition, rising wages for factory workers across Asia mean that production in Asia is less cost-efficient than it used to be. The real prize is shorter lead times. By reducing time-to-market, companies can produce, partially produce, finish, print or decorate more closely in-line with demand, reducing overstocks and increasing full-price sell-through. Businesses suffered from supply chain disruptions in 2021 as a fallout from a combination of global and local factors, including material and component shortages, transportation bottlenecks, staff unavailability and rising shipping costs, according to McKinsey's "State of Fashion 2022" report. In the past two years, lockdowns in different regions across Asia put pressure on supply chains, leading larger-scale suppliers and sourcing agents with multi-country footprints to gain an advantage. Going forward, COVID-19 acts as an accelerator for the transition to nearshore production. Proximity production deals with many of the supply chain risks caused by COVID-19 by shortening lead-time and reducing uncertainties, while increasing brands' and retailers' flexibility and reactivity to changes, and accommodates the rise of e-commerce and the high demand for specific items. McKinsey's "State of Fashion 2022" report indicates that over 70% of companies plan to increase the share of nearshoring close to company headquarters, and roughly 25% intend to reshore sourcing to their headquarters' country, according to McKinsey's Apparel CPO Survey 2021. As leaders innovate to create efficiencies, there is an imperative for slower-moving brands to expand their focus from efficiency initiatives to digital and operational enhancements which help to better plan and track logistics. Alongside logistical challenges, fashion companies are facing a range of new regulatory and trade hurdles. Among incoming regulations is the EU's proposal for a world-first carbon border tax and new restrictions on emissions from ship engines. Companies needs to manage these alongside challenges such as import bans from China's Xinjiang region. For companies shipping between the EU and the UK, Brexit adds new layers due to customs delays. Equally, ongoing trade tensions between the US and China threaten to exacerbate supply chain disruptions. The decrease of China's dominance of the textile production in recent years reflects an ongoing shift to nearshore locations in the US, EU, Turkey, Central America and North Africa.

Microfactories, Speedfactories, Reshoring: These are smaller and nimble manufacturing sites, usually planned out in an urban cell model, that can efficiently source or produce the raw materials as well as produce and ship finished apparel goods end-to-end. The success of such factories is heavily reliant on a fully digital, real estate efficient, either semi or fully automated manufacturing workflow capability that offsets the inefficient cost structure associated with large analog equipment, rising costs of real estate and labor costs, predominantly in developed countries.

We believe that the technology and solutions that we bring to the market in the form of digital textile printing solutions, as listed in our products and technology sections, are key enablers for these business and operating models. We expect increasing demand and adoption of our solutions by start-ups and new-generation digital apparel brands (some of which are our customers), as well as from traditional apparel brands that need to adapt their operational models in order to remain connected with their customers.

Overview of Textile Printing Processes

The graphic and accompanying description below present various textile printing processes:

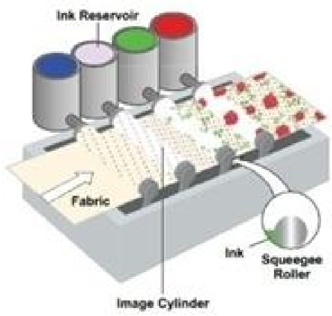


Screen printing is the most commonly used printing process for textiles. The two primary methods of screen printing are rotary screen printing and automated carousel screen printing.

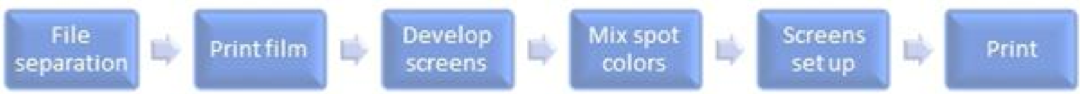
The following chart summarizes the key steps involved in the analog printing process:

Rotary Screen Printing Rotary screen printing is commonly used to print on outerwear, underwear, sportswear, upholstery and linens. It involves multiple, time-consuming process steps. Rolls of fabric pass through rotating cylinders that are engraved with the image or design to be printed. Each cylinder then applies ink of a different color, which forms part of the image or design. This process is generally used to print a pattern on a fabric roll that is then cut and sewn into finished products. Rotary screen engraving is a costly process that takes between four and five hours per cylinder and is frequently done offsite. Preparation of colors typically takes an additional 30 minutes and the setup of the printer itself typically takes nearly 1.5 hours. The process can require up to seven people. The maximum size of an image or design is limited based on the circumference of the cylinders, which is typically no more than 60 centimeters.

The following diagram depicts the analog rotary screen printing process:



Automated Carousel Screen Printing. Automated carousel screen printing is commonly used to print on finished garments and cut pieces. In automated carousel screen printing, a blade or squeegee squeezes printing paste or ink through mesh stencils onto fabric. The process typically employs a series of printing stations arranged in a carousel. At each station, one color of ink is pressed through specially prepared mesh stencils, or screens, on to the textile surface. Between color stations, there are also flash drying stations and cool-down stations to ensure that deposited ink does not inadvertently mix with the next color to be applied. Preparation of the mesh stencils is a specialized process, and its complexity is a function of the number of discrete color separations and screens that need to be prepared for a given design. The process of color separations, film production, and screen exposure and alignment typically takes approximately 1.5 hours for six colors. Once the screens and color separations are complete, preparation of the carousel typically takes between 40 and 60 minutes. After being manually loaded, the textile moves along the carousel from station to station where each color is applied separately. Unlike rotary screen printing, carousel screen printing does not require fixing the image or design with steam or hot air and, in most cases, does not require washing and drying the textile afterward.



Digital Printing Processes

Digital textile printing uses specially engineered inkjet heads, rather than screens and cylinders or mesh stencils, to print images and designs directly onto fabrics. As such, the use of digital technology eliminates multiple complicated, costly and time-consuming steps, such as screen preparation or cylinder engraving, preparation of pastes or inks, and screen or cylinder alignment.

Most fabrics need to be pre-treated before printing by submerging them in a solution that is designed specifically for the type of fabric and ink being used. This coating process is essential for achieving the desired chemical reaction between the ink and the fabric. The fabric is dried following pre-treatment. After the ink drops are applied, the printed fabric undergoes a process of fixation that is also specific to the type of fabric and ink being used. Digital textile printing generally uses either dye-based or pigment-based ink.

The digital textile printing market principally includes two types of printing processes:

Direct-to-Garment (DTG) In DTG printing, an inkjet printer prints directly on the textile. DTG printing allows for printing images and designs onto finished textiles, such as t-shirts that have already been sewn and dyed. The following chart summarizes the key steps involved in the DTG printing process:

Direct-to-Fabric (DTF) In DTF printing, rolls of fabric pass in-line through wide-format inkjet printers that are utilized to directly print images and designs onto rolling fabric. The following chart summarizes the key steps involved in the DTF printing process:

Recent technological developments in digital printing have supported the adoption of digital printing by the global printed textile industry, including by custom decorators, online businesses, brand owners and contract printers. As a result of consumer and macro trends, which were accelerated due to the COVID-19 pandemic, we believe that these businesses offer a significant and rapidly growing market for digital printing solutions.

How Digital Textile Printing Addresses the Industry Needs

The following characteristics of digital textile printing enable new business and operating models, help industry players as they address their manufacturing gaps, and, as these characteristics relate to our business, are driving the shift from analog to digital textile printing:

Manufacturing flexibility: Digital textile printing allows a full image or design to be printed on a garment or cut fabric in one manufacturing step, compared to multiple steps in an analog printing process. Digital textile printing gives manufacturers the ability to print short runs, with personalization capabilities, in a cost-effective manner with a minimum order quantity of one unit. Unlike screen printing, digital printing cost remains the same when printing a single unit or multiple units. This allows printers to execute orders one by one without needing to accumulate large demand for a design before printing. In a post- COVID-19 world, manufacturing flexibility will play an essential role in building brands' resilience. Companies must rethink their sourcing strategies while implementing cutting-edge supply chain management, and building in greater flexibility, in order to keep products at pace with customer demand in 2022.

Design flexibility: Digital textile printing enables a larger variety of artwork to be imprinted, without limitations on number of colors per design and high-resolution imaging.

Integration with advanced workflow environments: Digital textile printing is better suited for transition to full digitization of the production floor environment, including connectivity to cloud networking elements and productivity analytics software solutions.

Reduced time between design and production: The digital textile printing process allows for samples to be quickly produced, evaluated, and modified, which permits brand owners to increase the frequency and variety of replenishment cycles in response to fashion trends.

Decreased risk of excess inventory: The costly and time-consuming upfront setup required in analog production methods is avoided when using digital printing technologies. Therefore, digital printing enables the cost-efficient production of a smaller quantity of garments, which mitigates excess inventory risk and improves profitability. Stocking blank garments or fabric and decorating them only when demand is identified significantly reduces the amount of inventory at risk. This reduces working capital requirements, thereby enabling the emergence of numerous online businesses which are focused on the sale of printed textiles.

Reduced labor and physical space requirements: Digital textile printing requires significantly less labor to print an equivalent output due to the significant reduction in process steps. The unique Kornit proprietary process of digital textile printing further reduces the need for labor and introduces additional floor space savings for manufacturing equipment by eliminating certain process steps and by consolidating multiple process steps into a single printing system. The combination of labor savings and smaller shop floor footprint, coupled with lower energy consumption and a lack of environmental impact, enables manufacturers to move production closer to consumers in a cost-effective manner. Textile business is very seasonal and the need to retain employees bears a heavy financial burden. The move to digital printing significantly reduces the need for manpower and allows for a more flexible cost structure.

Sustainability: Digital textile printing significantly reduces industrial water consumption and discharge of toxic chemicals by eliminating the need to wash screens for color changes and repeated use. We believe that this results in reduced environmental impact and, in turn, enables manufacturers to comply with regulatory and brand guidelines at a location of their choosing, in many cases in populated areas which are not industrial in nature.

Our Business

We develop, design and market innovative digital printing solutions for the global printed textile industry, with the aim of becoming the operating system for on-demand sustainable fashionX (self-expression through textiles— anyone, anywhere, anytime). Our solutions are complemented by additional layers of product and services offerings to serve fulfillers and demand generators, such as brands, creators and licensors, thereby connecting demand and supply, with a major focus on the fashion, apparel and home décor segments of the industry.

Our vision is to create a better world where everybody can bond, design and express their identities, one impression at a time.

Our mission is to revolutionize the fast-changing industry by facilitating and expediting the transition from analog processes that have not evolved for decades and are not fit for the rapidly changing business models and self-disruption needs of the industry, to digital methods of garment, apparel and home decor finished goods production and decoration that address the contemporary supply, demand, social and environmental needs of the industry in which we operate. We strive to connect demand generators like fashion brands, ecommerce platforms, marketplaces, designers, and licensors to the most advanced production capabilities by becoming the operating system for on-demand, sustainable fashionX (self-expression through textiles— anyone, anywhere, anytime)

We focus on the rapidly growing high throughput, direct-to-garment, or DTG, and Direct-to-Fabric, or DTF, segments of the printed and decorated textile industry. Our solutions include our proprietary digital printing systems, ink and other consumables, associated software and value-added services that allow for quality and cost-effective large-scale printing of short runs of complex images and designs directly on finished garments and fabrics. Our solutions address the growing production gaps reflected in the need to shift to shorter runs, proximity production, proximity decoration, partial or full on-demand production, and EcoFactory models by enabling our customers to print and decorate high quality products in a time efficient, cost-effective and environmentally-friendly manner. This allows textile manufacturers to transition from their traditional business and operating models of supply based on demand predictions, to partial or full on-demand or made-to-order models, by which decoration of fabric and production of finished goods only takes place once a customer order has been issued.

Our solutions are differentiated from other digital methods of production because they eliminate the need to pre-treat fabrics prior to printing, thereby offering our customers the ability to digitally print high quality images and designs on a variety of fabrics in a streamlined and environmentally-friendly manner. When compared to analog methods of production, our solutions also significantly reduce production lead times and enable customers to more efficiently and cost-effectively produce smaller quantities of individually printed designs, thereby mitigating the risk of excess inventory, which is a significant challenge for the industry, as further described in our “Industry Overview” section above.

The success of evolving omni-channel apparel retail is dependent heavily on the ability to show a large variety of designs. Since it is more and more difficult to predict consumer preferences and demand, it is increasingly difficult to stock every possible design. Having digital capacity available allows printers, brands and retailers to offer unlimited design with minimal to no inventory risk. We believe we are well positioned to continue taking advantage of this trend.

Our DTG solutions utilize our patented wet-on-wet printing methodology that eliminates the common practice of separately coating and drying textiles prior to printing. This methodology also enables printing on a wide range of untreated natural, synthetic and man-made fabrics, including cotton, wool, polyester and lycra, and with throughputs ranging from 40 to 235 garments per hour. Our entry-level, industrial and mass production DTG solutions are suited to the needs of a variety of customers, from smaller industrial operators with limited budgets to mass producers with complex manufacturing requirements. Our patented NeoPigment ink and other consumables have been specially formulated to be compatible with our systems and overcome the quality-related challenges that pigment-based inks have traditionally faced when used in digital printing. Our software solutions simplify order to production workflows in the printing process, by offering a complete solution from web and traditional order intake through graphic job preparation and execution. We also offer customers maintenance and support services, as well as value-added services and application consulting, aimed at optimizing the number of impressions printed by our systems.

In April 2019, we supplemented our original DTG printing technology with our Kornit NeoPoly Technology, which is our industry’s first digital, industrial process for high-quality printing on polyester, thereby opening the large sport and athleisure market to our digital printing solutions. The new Kornit NeoPoly Technology addresses existing challenges with a new process and ink set implemented in the Kornit NeoPigment[T] process. Our new process handles polyester applications without having to compromise on design, run size, substrate, or labor costs. The breakthrough technological innovation has been achieved by an innovative ink set and a physical and chemical process specifically developed for low-temperature curing, and polyester-enhancing functionalities developed to maintain fabric characteristics and provide superior fastness. This unique process overcomes dye migration on polyester. The inks are Eco-Passport certified and do not contain PVCs or any other toxic ingredients. The first system equipped with our Kornit NeoPigment Technology is the Kornit Avalanche Poly Pro, a member of our industrial platform, which became commercially available in April 2019.

In April 2021 we supplemented our original DTG printing technology with our new Kornit MAX technology, which enables never-seen-before print quality and durability standards, together with enhanced production speed. The breakthrough technological innovation has been achieved thanks to new additional process and consumables capabilities, enabling optimal control over print quality and durability on a significantly larger media variety.

In addition, MAX technology introduces further innovation, as its new consumables enable another groundbreaking innovation – Kornit’s XDi technology. Kornit XDi Introduces a new dimension to digital printing by enabling to print multiple layers to create unlimited innovative 3D effects. XDi’s unique premium applications open new markets for our customers and offer unlimited creative freedom that is powered by a simple, single-step, digital and sustainable process. Our customers are now able to do much more with their printing equipment and enter higher margin premium markets.

In addition to our offering that targets DTG applications, we also market an industrial digital printing solution, the Kornit Presto, which targets the on-demand DTF market. While the DTG market generally involves printing on finished garments, the DTF market is focused on printing on fabrics that are subsequently converted into finished garments, home or office décor, and other items. The Kornit Presto (like our predecessor DTF product, the Kornit Allegro) utilizes our proprietary wet-on-wet printing methodology and houses an integrated curing system. It offers the sole (following its predecessor, the Allegro) single-step, eco-friendly, stand-alone industrial DTF digital textile printing solution available on the market. We primarily market the Kornit Presto to businesses seeking horizontal or vertical expansions into fabric decoration, such as innovative web-based businesses operating on-demand business models that require a high degree of variety and limited quantity orders, as well as to fabric converters, which source large quantities of fabric and convert untreated fabrics into finished materials to be sold to garment and home décor manufacturers, and to sustainable fashion producers seeking a competitive edge in today's changing supply chains. We believe that with the Presto we are well positioned to take advantage of the growing trend towards customized fashion, home décor and on-demand fabric printing, with increased focus on sustainable production. We began selling the Presto commercially in the second quarter of 2019 (after having introduced our initial DTF digital textile printing solution, the Kornit Allegro, four years earlier, in the second quarter of 2015).

In October 2021, we introduced the Presto MAX. The Presto MAX is the first digital print system to offer white printing on colored fabrics, enhancing decoration capabilities for dark colored fabrics more broadly. In addition, the Presto MAX is the only single-step solution— and the most sustainable solution available— for direct-to-fabric printing, delivering quality, soft feel, with whites and brighter neon colors. As mentioned above, the MAX technology enables our new Presto MAX to utilize the innovative XDi technology, enabling our customers to cater to new market verticals and to offer completely differentiated, high-value applications.

Kornit Presto MAX is compatible with natural, synthetic, man-made and blended fabrics, and includes advanced algorithms for smart autonomous calibration, to deliver high-quality results with short cycle times and minimal manual interruptions or defects. The system was devised for compatibility with the KornitX global fulfillment ecosystem to enable anywhere, anytime production, supporting a true distributed on-demand sustainable production model that fulfills nearer to the end consumer, eliminating time and logistical waste from the experience while empowering brands to ensure quality and consistency across all systems and production sites.

Kornit Presto MAX provides the cornerstone of a smart, efficient, sustainable EcoFactory that empowers producers to cover and integrate more parts of the process, from design to finished product, to decrease their carbon footprint, utilize automation to increase productivity and generate less waste. This means eliminating excess time, labor, and shipping throughout the value chain, enabling proximity on-demand production to meet the accelerated demands of a web-driven global marketplace—revealing new sales channels and clever business models to grow the business long-term.

KornitX

Building on our acquisition of Custom Gateway and the ever expanding installed base of Kornit systems, in May 2021, we announced the establishment of KornitX. KornitX is a key building block in our execution plan to become the operating system for on-demand sustainable fashion. KornitX provides an end-to-end solution, connecting demand generators and ecommerce channels to sustainable on-demand fulfillment across the globe, utilizing its digital software platform and a global fulfilment network of on-demand manufacturers and fulfillers.

Our Competitive Strengths

The following are our key competitive strengths:

Leading player in the fast-growing industrial digital DTG market. We are the leading player in the fast-growing, industrial and mass production, digital direct-to-garment, or DTG, market based on our sales, and have approximately 1,200 active customers globally. We have been revolutionizing the industry since 2005 and have developed a robust solutions portfolio and scaled our go-to-market infrastructure over the course of this period. Other than our unique intellectual property and technology, and our robust go-to-market infrastructure, our application experts have the best industry knowledge. Consequently, we believe we can greatly support and advise our existing and future customers with the best-known methods to optimize their production environments. Our unique DTG product offering includes novel embellishment applications leveraging our XDi technology and a long roadmap of new consumables and applications. In addition, we introduce an automation journey available on the MAX platforms starting with automatic loading and unloading with a clear path for lights-out factory. We focus on the rapidly growing high-throughput DTG and direct-to-fabric, or DTF, segments of the printed and decorated textile industry. In the DTG segment, based on our extrapolations from third party market data, we project the number of annual impressions (including relevant printed or embroidered impressions on, for example, t-shirts, hoodies, pants, bags, etc.) to grow from approximately 21 billion in 2020 to approximately 31 billion on an annualized run-rate basis by the end of 2026. We estimate that only approximately 1 to 2% of these DTG impressions are printed digitally today. Within the DTG market, we estimate that approximately 70% of impressions in 2020 were in brands and private labels, making it the largest portion of this market, while we estimate that there were approximately 20% of impressions in the promotional portion of the market and approximately 10% of impressions in the customized design portion of the market. COVID-19 impact varies across the different segments with both tailwinds and headwinds impacting growth rates. We expect an accelerated growth rate of the customized design segment, due to the fact it is mostly based on online sales. In the roll-to-roll market, based on our extrapolations from third-party market data, we project the total square meters of fabric printed to grow from approximately 39 billion in 2020 to approximately 42 billion by the end of 2026, considering the decline in demand caused by Covid-19 pandemic in 2020 and the expected bounce back in 2021, with only approximately 6% being printed digitally today. We, therefore, believe that our leadership position, combined with continued technology innovation, and operational improvements, will allow us to grow our business in the coming years.

Well-positioned to disrupt the DTF market with our unique single-step manufacturing solution. We believe we are well positioned to capitalize on the growing trend toward on-demand home décor with our unique DTF solution. Our Kornit Presto Max system (like our former Kornit Presto and Kornit Allegro), combined with our proprietary process, was designed to offer a single-step manufacturing solution which is especially suited for businesses which do not have a vertically integrated textile mill. Unlike other digital textile printers, the Kornit Presto Max does not require multiple pre-processing and post-processing steps that are customarily used in vertically integrated textile mills and that utilize high levels of energy and space and have a negative environmental impact. Kornit Presto Max unique single-step process prevents water waste and pollution by eliminating the pre/post-treatment and washing of the fabric. Given its architecture, it is perfectly suited for short and micro runs. The Kornit Presto Max is compact in size, requires a single person to operate, and fits very well in an urban and non-industrial setting. The Kornit Presto Max unique pigment solution provides the ability to print high-quality designs on multiple fabric types without the need for different inks and consumables, while generally other systems and technologies for DTF digital printing require the dedication of discrete printers to specific fabric types. The rising market need for a sustainable and fabric-agnostic process to support short manufacturing runs is pushing the demand for digital pigment solutions. The Kornit Presto Max is the first digital print system to offer white printing on colored fabrics, enhancing decoration capabilities for dark colored fabrics more broadly. As mentioned above, the MAX technology enables our new Presto MAX to utilize the innovative XDi technology, enabling our customers to cater to new market verticals and to offer completely differentiated, high-value applications.

Disruptive technology that enables our customers to adopt new, or improve existing, business models. Our digital printing solutions allow our customers to develop new, or improve existing, business and operational models by enabling them to produce short to medium runs of high-quality customized garments efficiently. This facilitates online business models that require an on-demand and made-to-order basis and allows brand owners to produce and decorate garments in-house. With a constantly growing worldwide customer base of approximately 1,200 active customers, we are witnessing the creation of a global fulfillment network of printing specialists that are leveraged by large numbers of websites that offer customizable garment printing services. As demand from these customers continues to grow, so does utilization of our systems, which in turn print more impressions, consume more ink and once used to their full capacity, require purchasing of more systems. In November 2020, we formed a new business line, founded on the basis of Custom Gateway, focused on enabling brands, retailers, licensors, and marketplaces to realize the benefits of digitization by connecting them to the most suitable on-demand production and logistics operations, while ensuring consistency, quality and brand integrity.

Environmentally-friendly printing processes. A significant portion of global industrial water pollution comes from textile dyeing, printing and finishing. We believe that environmental factors are beginning to assume a significant role in the decision-making process of our existing and potential customers, with an increasing number of countries adopting restrictions on the use of technologies like screen printing that generate significant wastewater. Our printing process eliminates the need for separate pre-treatment, as well as steaming, washing or rinsing of textiles during the printing process, which leads to a significant reduction in water consumption compared to conventional printing methods. In addition, our inks are certified by leading industry groups as being safe for system operators, consumers and the environment. Finally, our systems offer energy saving processes that result in the use of significantly less power compared to traditional printing processes. We believe that these environmental benefits will further drive market penetration of our solutions and enable manufacturers to move production closer to the consumer in a cost-effective manner.

Attractive business model. We currently offer a broad portfolio of differentiated digital printing solutions for the digital industrial and mass production DTG market. Our existing and growing installed base of systems results in recurring sales of ink and other consumables, which are specially formulated to enable our systems to operate at the highest throughput level. These recurring sales are generated at attractive gross margins. Recurring sales of ink and other consumables have historically offered us a degree of visibility into a significant component of our results of operations. We believe that our recurring sales model also enables us to foster close customer relationships, as it facilitates ongoing engagement with our customers, which positions us to provide tailored solutions and expands our ability to provide value-added services to our customers. Our customer relationships are further strengthened by a trend towards ownership of multiple systems, as the number of customers with at least two systems has grown from 155 as of December 31, 2014 to 293 as of December 2021. The number of customers with at least 10 systems has grown from 9 as of December 31, 2014, to 22 as of December 31, 2021. We anticipate that revenue from services will increase over time as we reach upgrade cycles across our growing installed base and continue to expand our service contracts business model. Additionally, sales of ink and other consumables are generally higher in high throughput systems such as the Vulcan Plus, Atlas MAX, Atlas, Avalanche and Presto systems. Large customers typically run at high utilization rates and can consume up to five times as much ink per year compared to other customers. By developing and implementing proprietary end-to-end solutions for our customers, we believe our business model is differentiated from more commoditized solutions serving the same end markets. We have proven our ability to grow revenues while maintaining an attractive margin profile and we intend to continue investing in our business to drive profitable growth in the future.

KornitX adds an additional layer to Kornit's business model, by generating revenues from on-demand product generators such as brands, retailers, creators, as well as print service providers and fulfillers. The KornitX business model generates revenues from software subscription fees, transaction charges, professional services, and on-demand product fulfillment.

Product upgrade strategy. In 2016, we started implementing a long-term strategy for supporting our installed base with upgrade paths to newer, more advanced, systems. The goal of this strategy is to allow our customers to extend the return on their investment in Kornit systems, and in return, we enjoy growth in system utilization and on-going capital investments in our equipment through the depreciation cycle.

Product refurbishment strategy. In 2019, we introduced a new line of factory refurbished systems, based on the Avalanche and Storm platforms. This new line of business will enable us to expand our product offering with the latest technology capabilities at different price points, as well as provide us with maximal control over any after-market activity. This initiative makes it easier for our existing customer base to adopt our latest technology as they trade-in their existing relevant installed base, which in turn will find its way to new customers who are more capital expenditure sensitive. As a part of our sustainability strategy, this new line of business enables us to re-use systems, sub-modules and other parts to their fullest potential and life expectancy, thus reducing waste and other environmental impacts of unnecessary production of new systems. In 2021, we changed our strategy to the sale of used systems, in place of refurbishment of systems. The selling of used systems is our preferred approach for the aging Storm and Avalanche configurations. Sale of used systems appears as a more sustainable procedure, which keeps the advantages originally planned: re-using of sub systems; reducing carbon footprint; and providing lower price printing solutions.

Robust intellectual property portfolio driven by an innovation-based culture. Our intellectual property portfolio reflects over a decade of significant investments in digital textile printing, which we believe creates significant barriers to entry. We have developed a strong base of technology know-how, backed by our portfolio of intellectual property, which includes 66 issued patents and 43 provisional or pending US applications, 41 pending non-US patent applications and 14 pending PCT applications that cover wet-on-wet printing methodology, ink formulations, printing processes and related methods and systems. Our team of over 246 researchers and developers, including chemists, electrical engineers, system engineers, software engineers and mechanical engineers, ensures that our systems remain technologically advanced, and are well engineered, user-friendly and highly reliable.

Extensive product portfolio, strong new product pipeline and end-to-end solutions. With throughputs ranging from 40 to 235 garments per hour, our DTG systems are suited for smaller industrial operators with limited budgets, as well as mass producers with complex needs. Since 2015, we have commercialized several new solutions in the DTG market, including:

- the Vulcan and (recently, in January 2020) the Vulcan Plus, which are cost-effective, digital substitutions for carousel screen printing and high-capacity, industrial DTG systems;

- the HD family of solutions (including, in January 2020, the Storm HD6 Lite refurbished system);

- the Atlas, our high throughput mass production digital DTG system; and

- beginning in April 2019, our specialty DTG solutions - the Avalanche Poly Pro, which enables digital printing on a variety of polyester products and other fabric types, including cotton, cotton-polyester blends, silk, leather, denim, linen and wool.

Our new MAX technology, which was first introduced on the Atlas platform in April 2021, opens a new category for DTG, offering highest retail quality to meet the needs of leading fashion and sports brands. The MAX technology offers a significant incremental value to our install base customers through upgrades, as well as to new customers targeting new market verticals. Our new MAX technology is another key milestone in our roadmap as it opens new market categories for our customers to serve, as well as enabling never-seen-before high value applications such as XDi, enabling our customers to further establish their competitive differentiation, expand their business and improve their profitability. Our future roadmap remains focused on the continued development of proprietary processes, continuously expanding the breadth of applications upon which we can print while pushing the envelope of cost-efficient manufacturing further as a means to expand our serviceable addressable markets and maintain our customers' leading market position.

We extend our business reach and solution scope for our customers with KornitX, an end-to-end solution for on-demand, sustainable manufacturing and fulfillment of fashion. KornitX includes a robust, cloud-based software platform with a wide range of services to digitally transform our customers' operations. Our mass customization, personalization, and workflow solutions provide expanded product offerings and customer segments, higher efficiency and productivity for on demand fulfillers, as well as enable new business from various online channels, both B2B and B2B2C. Kornit Konnect, our operational data analytics and business intelligence solution, provides transparency and manageability to our customers, enabling them to monitor production, performance and usage throughout their fleets. The Konnect also enhances their ability to plan and manage activity by providing valuable metrics such as ink consumption, types of prints and garments, as well as comparison between time frames and machines. Our offering is further enhanced with image processing software solutions provided by our partners.

Our aim is to provide a wide set of solutions to our customers, based on our familiarity with the industry and customers' needs. Based on that, we are approaching the market with end-to-end solutions in mind, combining hardware, consumables, software and services, built around the primary offering of printers and ink and enhanced by the software workflow range of integrations and functionality scope.

Our KornitX platform focuses on enabling brands, retailers, marketplaces and other demand generators to realize the benefits of digitization by connecting to the most suitable on-demand production and logistics operations, while ensuring consistency, quality and brand integrity.

KornitX manages and routes all orders from demand generators through an extensive global fulfillers network which offers global, on-demand, sustainable unlimited manufacturing capacity with best quality assurance, mainly by utilizing Kornit's access to on-demand fulfillers.

KornitX addresses two types of target audiences:

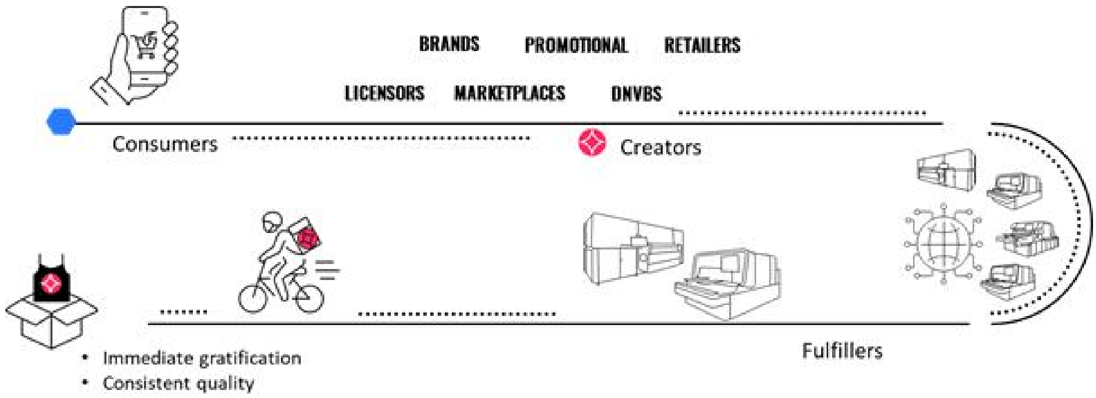
- Solutions for print service providers; and

- Solutions for demand generators (e.g. brands, licensors, creators, retailers and online commerce platforms).

The KornitX platform includes a wide variety of features, functions, and services that make it easy for on-demand fulfillers and demand generators to source, create, manage, sell and fulfill dropship products.
The platform enables the import and management of orders for on-demand, personalized and virtual stock products from multiple sales channels for fulfilment. Customers can create, manage and share virtual product data and turn orders into print jobs organized in a production-ready manner. The platform also manages blank products and inventory for stock management.

With KornitX, on-demand fulfillers can automate end-to-end production processes on the factory floor with an industry-leading scan point workflow, improving efficiency and visibility of each order.

Finally KornitX offers a global fulfillment network (GFN), which is a world-class group of fashion, textile, and print-on-demand fulfillers, providing print services to the world's top fashion brands, retailers, licensors and other demand generators, enabling them to fulfill closer to the end-customer and to guarantee the highest quality on every order.



At the heart of a true industrial revolution, or Textile 4.0. Every digital printing revolution starts with printing small quantities of particular designs where the advantages of digital technology are most pronounced. The ability to expand the addressable market of digital printing relies heavily on constant reduction of cost per printed unit (CPP). Given our deep technological foundations, we have been able to constantly reduce CPP by increasing system output, as well as increasing the efficiency of our inks, allowing customers to consume less ink while achieving excellent results. Given this progression, we are now able to offer a cost-effective alternative to screen printing for runs of up to 500 garments, making our products a viable printing solution for large scale retailers who now seek to move to quick inventory replenishment and are constantly moving to shorter runs of production.

Strong management team. Our Chief Executive Officer, Ronen Samuel, and our Chief Financial Officer, Alon Rozner, bring extensive experience of management roles in publicly traded companies and/or in management roles in the printing industry. Our management team's industry expertise and extensive experience in running global companies will enable us to execute our growth strategy. Our management infrastructure also includes executives who are experienced in the management of people, large scale business, innovation, product development and acquisitions in larger public organizations, including HP, Amazon, Applied Materials, NICE, Orbotech, Amdocs and Mitsubishi Fuso Trucks of America. Over the past five years, we have invested heavily in human resources to support our growth. Since 2013, our workforce has grown by more than four times, from 190 to 882 as of December 31, 2021. Additionally, more than 383 of our employees are in regional locations, enabling us to provide more localized service to our customers.

Our Strategy and Catalysts for Growth

As we look at the trends that are shaping our industry and consumers' behavior, we identify many opportunities to transform the way the industry operates from end to end. From a polluting, analog and inefficient system to a digital and sustainable one. We are connecting consumers and demand generators like fashion brands, marketplaces, designers, merchandisers and creators to the most advanced digital production floors around the world by becoming the operating system for on-demand, sustainable fashion (fashion includes apparel, home décor, and other textile-based forms of self-expression). The operating system has a few key elements:

The first key element focuses on the production floor. We are digitizing the production floor by growing our tech leadership and solution offering. We are focused on ongoing investments in our research and development, product management, solutions and applications development areas to continue driving innovation and automation within the industry, thereby allowing our customers and prospects to grow their businesses by enabling them to expand their product offering with additional applications, designs, and fabric types. We focus on constantly removing barriers as they relate to quality, hand feel, and cost (as evidenced in the release of our HD family of solutions). We will continue to drive the productivity of our technology to allow existing and future customers to cost-effectively obtain new jobs and transfer existing recurring jobs and impressions from analog to digital printing, which will drive increased sales of systems, consumables, software and services. As part of our strategy, we will continue to bring to the market solutions that enable efficient mass production and customization in a rapidly transforming industry that is shifting to shorter production runs and mass production of on-demand, at times one-by-one, orders. Our latest unique innovative technology offering includes novel embellishment applications that are replacing many of the applications that were once before producible only with analog methods. This is made possible by leveraging our XDi technology and new consumables. The acquisition of Voxel8 and the future integration of its technology to create new decorative and functional application is another important step in digitizing production process by replacing existing applications and enabling never-seen-before ones. In addition, we introduce an automation journey available on the MAX platforms, starting with automatic loading and unloading with a clear path for streamlining production and a lights-out factory. Our recent expansion of our cloud software workflow solutions via the acquisition of Custom Gateway and the formation of our new business line — KornitX— are direct execution initiatives of this strategy. KornitX workflow solution provides the software layer of the production floor management, driving an efficient manufacturing process with high visibility and performance measurements throughout the entire process. Orders are routed automatically to the production floor and managed to facilitate efficient on-demand production on a mass scale. The technology enables customers to realize the full benefits of digitization by seamlessly connecting the front end to the most suitable back-end element. We believe that removing market barriers includes periodically introducing to the market innovative digital processes that address key industry pain points and gaps, which traditional analog techniques cannot handle, do so with poor quality, or do so in a non-cost efficient or non-environmentally sustainable manner. We believe that continuing to remove market and technology barriers and developing new features and functionality of our solutions will allow us to win new customers and increase system, consumables, software and services sales to existing customers.

Another key element of the operating system is establishing KornitX as the virtual layer of the on-demand production workflow, connecting the front-end with the back end. KornitX is the engine and the brain behind the operating system, managing every aspect of the end-to-end process. KornitX solution connects the virtual demand with the physical supply by capturing impressions generated in the front-end and using its smart routing engine – assigning them to the best suitable production location. This enables a true on-demand, sustainable manufacturing process that supports consumers' immediate gratification. KornitX is the enabler of the massive opportunities for the end-to-end on-demand workflow, in both B2C and B2B environments across different verticals, including fashion, sports, music, entertainment, influencers, gaming and broader creator and merchandiser communities. We are focused on four execution areas of this key element:

- Scaling the global fulfillment network to offer a close-to-the-consumer endless-supply model for demand generators.
- Investing in tech layers of the KornitX platform, such as automation, and data-driven decisioning.
- Enriching our front-end offering, with content creation, content management, visualization, and smart connectivity APIs.
- Forming additional strategic alliances with mega-platforms and marketplaces.

The following are additional elements of our growth strategy and catalysts that will drive our business expansion:

Expanding in Key Markets

We plan to continue growing our customer base by targeting new customers in markets that are adjacent to the markets in which we have been operating. To date, we have been catering predominantly to the customized design market, consisting of online businesses of different sizes, focused mainly on mass customization and personalization that are enabled by using our technology. An example of our success in this market is the Master Purchase Agreement, that we entered into on January 10, 2017, with an affiliate of Amazon.com, Inc. To date we have supplied several systems, large quantities of inks and consumables and have been providing paid service to multiple facilities under the agreement. During the years 2020 and 2021, Amazon-related revenues were $21.1 million and $87.0 million, respectively. In September 2020 and November 2021, Amazon exercised its vested shares under the warrant agreement signed in 2017 and immediately (in September 2020) entered into a new transaction pursuant to which Kornit issued Amazon a warrant to acquire Kornit's shares. The shares underlying the new warrant are subject to vesting as a function of payments up to an aggregate of $400 million by Amazon over a five-year period for two different categories of product lines and services. The newly signed agreement with Amazon expresses the close partnership with Amazon and the trust Amazon has both in the existing and future Kornit solutions. We expect that our relationship with Amazon will continue to expand in the future and that they will remain a significant customer. We expect continued growth with other existing customers in the customized design market as they seek to grow capacity, provide new applications and expand into new market segments and geographies. We also expect to add new customers in the customized design market, as the market continues to grow and develop. With the breadth of our existing portfolio and our continued investment in features and functionality, we believe we are well positioned to expand our market reach by penetrating adjacent markets in the form of traditional and start-up brands, private labels, and the promotional market, in which we can drive adoption of digital DTG and DTF printing solutions in place of analog screen-printing production methods, which are currently primarily relied upon. While we have started to penetrate these markets, directly or via third-party fulfillers and decorators, we plan to deepen our penetration into these important markets as they seek to transform their business and operating models.

Maximize Impressions

We are focused on increasing sales to existing customers by introducing new digital printing applications, developing new features and functionality of our systems, offering new system upgrade products to make it easier for customers to renew their fleets and update their install base to the latest technology available, increasing sales of software, offering customers empowerment program inclusive of basic and advanced training, with a goal of enabling our customers to increase utilization of their systems. With our move into solution selling, we are focusing on providing our customers with value added services like training programs, proactive services, production consulting and end-to-end workflow improvements. Through these value-added services, we are able to increase system availability and utilization, end-user product quality and to allow impressions production increase. We also intend to actively refer business to our customers by connecting them via our cloud software workflow platform with online businesses that seek fulfillment partners, which will improve our business relationship with our customers. Our objective is to help customers operate their businesses more efficiently, print more impressions and increase utilization of their systems, thereby requiring more ink and other consumables purchases as well as potential investment in new systems as they require additional capacity.

Expanding our GTM

We continue to invest in our go-to-market infrastructure across geographies, including in our sales, applications, and services teams. While maintaining an overall hybrid go-to-market strategy that includes both indirect and direct sales, we have adopted a direct sales model in North America, Germany, Poland and the United Kingdom, and are assessing moving towards that model in additional key markets. In North America, we initiated the transition towards direct sales via our acquisition of the U.S.-based digital DTG printing assets of SPSI in 2016, in which we acquired an increasing number of larger accounts, which require a more direct relationship between our company and the related customers. We completed the transition in North America to a full direct sales model in February 2019, with our acquisition of customer business assets from Hirsch, our former primary distributor in the United States and Canada. By fostering direct sales relationships with our North American customers, we have been deepening our relationship with them, as well as better aligning our product roadmap to meet their needs.

Strategic accounts are an important and valued part of our business and future growth, and we continue to make the appropriate investments in ensuring we serve their needs as it comes to sales, application consulting and services support. We expect to continue developing our strategic accounts practice in a combination of dedicated regional and corporate resources as we strive to help these important customers improve their business performances by delivering best-in-class customer experience.

We are seeking to increase the number of customers that rely on us to provide services for their systems by expanding our service capabilities and driving adoption of our portfolio of services contracts. As of December 31, 2021, we had service contracts in place with approximately 43% of our industrial and mass production installed base. Service revenues exceeded 10% of our overall revenues for the first time in 2017, and, in 2021, amounted to $39.4 million. In addition to driving gross margin improvement, we believe this provides us an opportunity for direct contact with customers with the goal of reducing system down-time, educating customers about optimal use of our systems to drive increased utilization and growth in the number of impressions printed, expanding the variety of print applications and increasing sales of post-warranty service contracts and other professional application development services.

Extend our leadership position through acquisitions and strategic partnerships

We seek to continue to differentiate ourselves and extend our leadership position. From time to time, we may supplement our internal efforts with complementary inorganic initiatives such as acquisitions and strategic partnerships to enhance our positioning. For example, our acquisition of Polymeric Imaging in 2015 expanded our ink technology capabilities, our acquisitions of the digital DTG printing assets of SPSI in 2016 enabled us to strengthen our direct sales channel and gain access to a large screen-printing customer base, and the acquisition of business assets from Hirsch in 2019 helped us transition to a full direct sales model in North America.

Our acquisition of Custom Gateway, a provider of cloud-based software workflow solutions with innovative technology, in August 2020, enabled us to offer an end-to-end on-demand production solution for our customers. Upon the acquisition of Custom Gateway and the integration of its solution, we have established KornitX. We aim to strengthen and expand KornitX's solution both organically and inorganically. Some of the inorganic directions we are exploring include technological components in the connectivity layer of KornitX, such as automation, AI and data-driven decisioning, and enriching our front-end offering with tools such as virtual creation, content management, marketplaces, and visualization. We expect the combination of KornitX software workflow portfolio with our existing and future technologies to bring to the market an end-to-end solution for on-demand production.

Our acquisition of the assets of Voxel8, an advanced additive manufacturing technology for textiles, provides us digital fabrication of functional features with zonal control of material properties, in addition to utilization of high-performance elastomers that adhere to inkjet technology. Our announced acquisition of Tesoma, a provider of high-quality engineering and high-performance, cutting-edge, textile curing solutions, which is expected to be completed in April 2022, is an important part of our strategy to add smart automation capabilities within our innovative, sustainable, on-demand production solutions, empowering customers to improve productivity, optimize quality, and reduce the total cost of ownership—all in a more sustainable production environment. Each of these acquisitions has enhanced the positioning of our company. Future acquisitions may also allow us to strengthen our existing portfolio of solutions or add new capabilities.

Our Products

Direct-to-Garment (DTG) Systems

In 2019 we started consolidation of our core DTG products portfolio to rely on our HD technology. The HD technology enables our customers to produce retail-quality prints with competitive cost per print. This represents a clear focus in our product offering, supporting our strategy to penetrate the market segment of brands and private labels. The combination of our HD technology, together with the Eco-Rapid ink-set, introduced in January 2019, enables our customers to produce retail-quality prints with competitive cost per print, allowing them to replace screen printed jobs, including those targeted for the retail market. Levelling up our entire product portfolio to the superior performance of our HD technology allows us to execute on our screen-replacement strategy across different market segments and a variety of customer types and sizes. The underlying strategy behind this system lineup is to accommodate a variety of customer types with the highest digital printing capabilities at a variety of productivity levels and price points, as they are now able to produce the same retail-quality at the same CPP on all our HD systems. The differentiation across our new line of HD systems is mainly based on system productivity and total cost of ownership, with a clear benefit to our higher productivity systems.

Yearly Output DTG Portfolio

System	Output range*
Storm HD6 Lite	50K-60K(1)
Storm HD6	96K165K(2)
Avalanche HD6	237K-360K(3)
Atlas	422K-640K(3)
Atlas MAX	330K-500K(3)
Vulcan Plus	620K-940K(3)

* Yearly output measured in high productivity print mode (13“X13”, Dark)

(1) The calculation is based on productivity of 8 hours shift in the range of 220 working days to 250 working days.

(2) The calculation is based on productivity range of 8 hours shift in 220 working days to 12 hours shift in 250 working days.

(3) The calculation is based on productivity range of 12 hours shift in 220 working days to 16 hours shift in 250 working days

In the beginning of 2019, we launched a new industrial DTG platform – the Kornit Atlas. The Atlas represents our next generation direct-to-garment printing platform, equipped with our next generation HD technology and designed mainly for high-volume garment decoration businesses and mid-to-large size screen printers. With its retail-grade print quality, high productivity and attractive total cost of ownership, the Atlas allows our customers to serve additional market needs and open new opportunities.

In January 2020, we introduced the Storm HD6 Lite Refurbished, which effectively replaces the Kornit Storm II, enables DTG printing for smaller print operations, such as commercial printers moving to the industrial market and analog printers broadening their production capabilities. It has a production capacity of up to 60,000 impressions annually and provides on-demand DTG printing that meets high-level, retail quality and sustainability standards.

In January 2020, we also launched the Vulcan Plus, which is currently our highest productivity HD system, with the best total cost of ownership for large production facilities with high volumes of mass customization print jobs. The Vulcan Plus is based on the Vulcan platform, that was introduced in 2016, and was designed based on our customers feedback and field experience with the platform.

Building on the massive new product introduction of 2019 and the beginning of 2020 we were able to create an extensive HD product portfolio, ranging all our main product platforms and a multitude of product configurations – starting from the Storm, through the Avalanche, and all the way to the Atlas and the Vulcan. In alignment with our products upgrade strategy, different upgrade paths are available to the HD systems, enabling our customers to equip themselves with new and superior capabilities and improve cost of ownership on their existing systems, expanding their business opportunities and allowing us to gain additional revenues from our existing installed base.

Specialty DTG: In 2019 we established another line of products as a part of our DTG offering – specialty solutions. This new line of products introduces a diversification in our offering, representing our product strategy of solutions. The underlying strategy behind this new line of products is to identify specific market needs and application challenges representing major market opportunities and address them with unique and specific solutions. In 2019 we introduced a new and innovative process for printing on dyed polyester, addressing the cross-industry challenge of dye-migration, when decorating dyed polyester. This new solution was introduced to market during 2019 on a new system from the Avalanche platform – the Avalanche Poly Pro.

Based on our new NeoPoly technology, the Avalanche Poly Pro can print on dyed polyester, using our new and innovative low temperature curing process, thus reducing the challenge of dye-migration that currently exists in all other polyester decoration techniques.

The Avalanche Poly Pro enables the production of on-demand customized polyester products, without minimum order quantity, providing all the advantages of digital printing on polyester. The system can print on a variety of polyester fabrics including poly blends (e.g., poly-lycra, poly-cotton), a variety of fabric builds and textures, including woven and knitted fabrics, as well as on recycled polyester.

In 2021, we launched a new industrial DTG platform – the Kornit Atlas MAX. The Atlas MAX represents our next generation direct-to-garment printing platform, equipped with our next generation MAX technology. The MAX technology introduces new consumables that help produce superb print quality, durability and print speed while allowing optimal ease of use, minimal application tweaking, wider working window, and a significantly larger media variety. In addition, the Atlas MAX introduces the Kornit XDi technology that enables the printing of multiple layers to create unlimited innovative 3D effects and premium applications like mimicking embroidery, heat transfer and vinyl for example. With the capabilities of Atlas Max and the Kornit Xdi technology, our customers are now able to do much more with their printing equipment and enter new premium markets.

Summary of our DTG Systems:

The following table summarizes key aspects of our DTG systems, all of which are compatible with a wide range of fabrics, including cotton, wool, polyester, viscose, lycra and various blends, and print at maximum resolutions ranging from 600 to 1,200 DPI. With the introduction of our Avalanche Poly Pro, our systems now also enable large-scale printing on dyed polyester, which has served as an entry point for us into the lucrative athleisure market.

System	Target Customer	Effective Throughput Light/Dark Garments(1)	Colors	Max. Printing Area
Breeze*	Entry Level	32/25	CMYK + White	14 x 18 in
Storm HD6 Lite	High Throughput	40/30(2)	CMYKGR + White	20 x 28 in
Storm 1000*	High Throughput	170/85	CMYK + White	20 x 28 in
Storm Hexa*	High Throughput	170/85	CMYKRG + White	20 x 28 in
Storm HD6	High Throughput	70/55(2)	CMYKRG + White	20 x 28 in
Storm Duo*	High Throughput	190/N.A	CMYK + White	20 x 28 in
Avalanche*	High Throughput	150/100	CMYK + White	23.5 x 35 in
Avalanche Poly Pro	High Throughput	106/85	CMYK + White	23.5 x 35 in
Avalanche DC Pro*	High Throughput	150/100	CMYK + White + Discharge ink	23.5 x 35 in
Avalanche 1000*	High Throughput	220/160	CMYK + White	23.5 x 35 in
Avalanche Hexa*	High Throughput	180/140	CMYKRG + White	23.5 x 35 in
Avalanche HDK*	High Throughput	105/85(2)	CMYK + White	23.5 x 35 in
Avalanche HD6	High Throughput	105/85(2)	CMYKRG + White	23.5 x 35 in
Atlas	High Throughput	200/160(2)	CMYKRG + White	23.5 x 35 in
Atlas MAX	Brand Quality	125/125(3)	CMYKRG + White	23.5 x 35 in
Paradigm II*	High Throughput	120/120	CMYK	15.5 x 19.5 in
Vulcan*	High Throughput	250/250	CMYKRG + White	15.5 x 19.5 in
Vulcan Plus	High Throughput	235/235	CMYKRG + White	15.7 x 19.7 in

* System undergoing End of Life process.

(1) Maximum output for sellable product for dark and light garments. Output for all systems, except the Vulcan and Vulcan Plus, is measured in High Productivity print mode using A4 size prints per hour with pretreatment included. Output for the Vulcan and Vulcan Plus systems is measured in Standard print mode using 12 x 12 in size prints per hour with pretreatment included. The throughput measurement is based on 10 t-shirt print procedure.

(2) Measurement method changed to 13“x13” image impression instead of A4.

(3) MAX technology standard – New quality standard in DTG printing to meet the highest retail quality

Direct-to-Fabric (DTF) Systems

Presto: The Presto combines a printing system and a drying and curing module so that a full end-to-end manufacturing process is enabled, allows one-step DTF printing. Unlike the Presto, most DTF printers require additional steps. The Presto takes advantage of our patented wet-on-wet methodology to allow for in-line printing on various fabrics, without requiring a separate pre-treatment process, thereby avoiding the need to use textiles that are specifically pre-treated for digital printing. The Presto is designed to achieve high throughputs and does not require water or steam for any part of the printing process, making it friendly to the environment. By using our proprietary pigment-based ink, Presto can print on a variety of natural and synthetic fabrics providing customers with a significant level of flexibility. Most other dye-based systems are specifically designed to print on specific fabric types and cannot be used with other types of fabric as the processes and consumables used vary considerably from one to the other.

Presto MAX: The Presto MAX is the first digital print system to offer white printing on colored fabrics, enhancing decoration capabilities for dark-colored fabrics more broadly. The Presto Max is also the only single-step solution—and the most sustainable solution available for direct-to-fabric printing, delivering quality, soft- feel, with whiter whites and brighter neon colors. The system was designed to incorporate future iterations and evolutions of Xdi technology—3D decorative applications to produce threadless embroidery, high-density, vinyl, screen transfer, and other innovative effects.

Kornit Presto MAX is compatible with natural fabrics, synthetics, and blends, and includes advanced algorithms for smart autonomous calibration, to deliver high-quality results with short cycle times and minimal manual interruptions or defects. The system was devised for compatibility with the KornitX global fulfillment ecosystem to enable anywhere, anytime production, supporting a true distributed production model that fulfills nearer the end-consumer, eliminating time and logistical waste from the experience while empowering brands to ensure quality and consistency across all systems and production sites.

Ink and Other Consumables

Kornit NeoPigment™ inks are water based, non-toxic, phthalate free and free of heavy metals and follow the highest international sustainability standards such as Eco-Passport, GOTS and per specific customer requirements. Our ink and consumables consist of our patented NeoPigment™ ink, proprietary binding agent, priming fluid, wiping fluid and flushing fluid. We categorize our line of inks into two category groups: Direct-to-Garment and Direct-to-Fabric.

For our DTG systems we hold four set of ink series: NeoPigment™, NeoPigment™ Rapid, NeoPigment™ Eco-Rapid and NeoPigment™ Olympia. The first two ink sets are designed for Kornit legacy products while the Eco-Rapid is the most advanced ink set designed for retail quality. These three ink sets are available in seven colors (W+CMYKRG) and a complementary binding agent. NeoPigment™ Olympia is designed for our new polyester printing system, the Avalanche Poly Pro, available in five colors (W+CMYK) and an enhancer. The printing process is unique and innovative specially designed for polyester printing overcoming the challenges by implementing four crucial steps. The first step, a fixation agent specially designed and formulated for polyester fabrics. The second step, white layer with special properties resulting in high quality white color, high opacity and elastic properties for high performance. The third step, CMYK printing, allowing increased color gamut and spot color matching and finishing with a poly-enhancer, designed for high quality finishing with improved durability and refined hand-feel.

For our Direct-to Fabric systems we have two ink set: NeoPigment™ Intenso and NeoPigment™ Robusto. Those are designed for our Roll-to-Roll systems and consist of six colors (CMYKRG), while the Intenso holds additional fluorescent colors and a light-K color. With our Direct-to-Fabrics ink series we have developed and patented a fixation on the fly (FOF) process. This unique consumable allows to print in a single step solution, avoiding the need of fabric pre-treatment and enabling minimal environmental impact. In March 2020 Kornit announced the release of a new NeoPigment™ Robusto Softener. This solution eliminates a key barrier with pigment-based printing, which enables a softer hand-feel, mostly required by brands.

All our inks are formulated for optimal use exclusively in our systems. Our patented wet-on-wet printing methodology that involves spraying a wetting solution on the fabric before applying our proprietary pigment-based inks. This unique capability enables our systems to reach high throughput levels while still producing high quality images and designs. The wetting solution prevents the ink from bleeding into the textile and fixes the ink drops, which enables digital printing with high color-intensity and image sharpness. This printing methodology combines the use of pigments rather than dyes in conjunction with our proprietary binding agent and allows us to print on a wide range of fabrics without the need for a separate pre-treatment process or system reconfiguration, resulting in minimal setup times for each run and high throughput levels. Given the proprietary nature of our printing methodology, our ink and consumables attachment rate is close to 100%. We also continuously invest in the development of new ink formulas for our systems in order to expand the range of applications we can print, further increase the quality of our high-resolution images and designs and improve color fastness.

We have developed two patented methods for printing on dark or colored fabrics. The first method involves printing a layer of specially formulated white ink as a base upon which to print colored images and designs. Printing on top of this foundation enhances color intensity and creates contrast against the dark or colored fabric. In addition, we have developed a patented discharge ink for printing on dark or colored fabrics. The discharge ink bleaches the fabric dye and applies colored ink in the locations where the discharge ink removed the fabric dye. This method, which is primarily used by brand owners and contract printers, allows the printing of high-resolution images and designs without compromising the texture or feel of the garment.

Software Solutions

Our DTG systems arrive with our QuickP Production software embedded. The software manages the system operation and prepares image files for print. QuickP Production is a simple to use solution that allows users to control key operating parameters, such as print resolution, perform maintenance and calibration procedures and import image files and prepare them for print.

Some of our customers also purchase our QuickP Designer software. QuickP Designer is a software package that combines our own internally developed Raster Image Processing, or RIP, software with other print job management capabilities and includes an advanced ink consumption estimation tool. A single QuickP Designer license can be used to support multiple Kornit systems.

In 2018 we introduced to market a new professional RIP software offering in collaboration with ColorGate. This offering allows customers to enhance our systems’ performance in the areas of print quality and color management, allowing them to achieve superior results and manage high-end color demanding applications. The combination of this new product offering, together with our HD technology, also serves our screen-printing replacement strategy, allowing our customers to achieve color accuracy and matching to screen prints.

In June 2019 we introduced to the market the Kornit Konnect, our cloud-based, software analytics connectivity platform that enables businesses to maximize productivity of their digital printing solutions. In its first phase, the Kornit Konnect enables businesses to monitor production, analyze insights and manage their fleet, in order to eliminate blind spots. It includes a fleet management dashboard, data driven benchmarks, actual production costs, and cost structures per job, making it easy for businesses to learn more, react faster and perform better.

In August 2020, we acquired Custom Gateway, a leading global provider of cloud-based software workflow solutions for both B2B and B2C business models. Custom Gateway's solution enables Kornit to offer customers an end-to-end solution for on-demand production.

KornitX's technology, which is based on our acquisition of Custom Gateway, connects front end, web-based demand generators such as on-line stores and on-line brands as well as licensors with a digitized fulfillment process, enabling a digitized on-demand manufacturing process. With KornitX's production floor solution, orders are routed and managed to facilitate efficient on-demand production on a mass scale. The technology enables customers to realize the full efficiency, scalability and profitability benefits of digitization by seamlessly connecting the front end whether online or storefront, to the most suitable back-end element.

KornitX's solution also enables us to facilitate smart connectivity, for operational and business transactions between multiple stakeholders in the on-demand manufacturing ecosystem, such as brands, licensors, retailers, blank providers and digital printers.

Our Services

Our services consist of maintenance and support, consulting and professional services. We are seeking to increase the number of customers that rely on us to provide services for their systems by expanding our service capabilities. As of December 31, 2021, we had service contracts in place with approximately 43% of our industrial and mass production installed base. Starting in 2020, this rate began to increase, as according to our policy, each industrial system is now sold along with a service contract. Service revenues exceeded 10% of our overall revenues for the first time in 2017 and, in 2021, amounted to $39.4 million. In addition to driving gross margin improvement, this provides us an opportunity for direct contact with customers with the goal of reducing system down-time, educating customers about optimal use of our systems to drive increased utilization, expanding the variety of print applications and increasing sales of post-warranty service contracts and other professional application development services. These will ultimately assist our customers to increase system utilization and the number of impressions printed.

Maintenance and Support

Starting in 2019, we typically provide a six-month warranty, which covers parts, labor, and remote support. Our customers also usually purchase an additional year of support coverage at the time of purchase. After this period, customers can renew their support contract by purchasing a support package that includes remote support, on-site support, software updates, and on-site yearly maintenance. Alternatively, they can choose to rely on our support on a time-and-materials basis. In the United States, we provide direct service to all of our customers. In the EMEA region, we provide direct service to more than half of our install base, while the other half receives that support through our independent distributors. In the Asia Pacific region, service is provided by our independent distributors, and we provide second line support, if needed.

Professional Services

Our systems are designed such that customers can operate them without the assistance of our company or our independent distributors. However, we provide the Customer Empowerment Program to ensure an efficient knowledge-transfer process and to help our customers become proficient and independent at operating their systems in a short period of time

The Customer Empowerment Program is composed of four touchpoints:

- Digital Touchpoint: This is available before the system is installed at the customer site. Includes access to a variety of online tutorials and documentation.

- Basic Technical and Application Training: Consists of a five-day course in our training center. Includes an overview of the system and involves practice by the customer performing typical maintenance, application, and operation procedures.

- Installation Training – Consists of three days on-site during the installation of the system, to ensure that the machine is up-and-running as expected.

- Ramp-up Training – Three to five days of professional services. Includes customized consulting aimed at optimizing the use of our systems. These professional services are provided at our regional offices or on-site at the customer.

We have furthermore established three training centers at our regional offices in the US, Germany, and Hong Kong, respectively. We continuously seek to expand the number and content of our training programs.

Our Customers

Our diverse global customer base consisted of approximately 1,200 active customers as of December 31, 2021. Throughout our growing installed base, our customers can serve a variety of different business models, particularly the new business models that have developed in response to the evolution of consumer trends and the rapid growth of the online retail market. Our solutions enable this category of “on-demand” businesses to fulfill consumer demand more quickly and cost-effectively in a manner that is differentiated from traditional brick and mortar businesses. A number of large-scale, on-demand platforms have emerged. These platforms often leverage digital printing solutions to facilitate business for other content providers.

The ecosystem of on-demand businesses that we currently serve, fulfill for e-commerce business and for high street brands and includes:

Self-Fulfillment. Companies manufacturing and selling their own designs that are advertised on their own websites and through other marketing means.

Hybrid Printers. Companies that both manufacture in-house and outsource manufacturing to third party fulfillment providers, who are often also our customers.

Third Party Fulfillment Centers. Companies serving as third party fulfillment for other businesses. Third party fulfillment providers include a number of our customers. Demand for these businesses is typically generated online through other web retailers and brands who are looking for flexible inventory management solution and to offer quick reaction to trends and consumers demand.

Proximity to the end customer is a key factor for these businesses since it minimizes shipping costs and enables them to offer rapid turnaround to consumers, which is a key factor in choosing where to buy online apparel. In many cases, retailers have asked us for assistance in identifying our local customers to help with their fulfillment.

With the acquisition of Custom Gateway, we expanded our customer base, which is now a part of our KornitX customer base, to include digitally native and traditional creators, licensors, retailers, e-tailers, and brands selling textile and hard good products and fulfilling them using on-demand business models, by leveraging the Custom Gateway network of fulfillers and suppliers.

The KornitX customer base includes:

Demand Generators. Driven by online presence, but may also include brick-and-mortar presence, notably creators, licensors, retailers, e-tailers, merchandisers, and brands benefiting from KornitX ability to diversify their online and physical offering, enable virtual product display, personalized and customized offerings with rapid fulfilment capabilities.

Fulfillers and Suppliers. Utilizing KornitX platform to publish their own virtual product offerings, as well as fulfill and manufacture on-demand for the demand generators. These customers include both textile and hard-good fulfillers.

See “ITEM 10. Additional Information— C. - Material Contracts - Agreements with Amazon.”

C. Organizational Structure

Our corporate structure consists of Kornit Digital Ltd., our Israeli parent company, and six wholly-owned subsidiaries: (1) Kornit Digital Technologies Ltd., which was incorporated on July 5, 2006 under the laws of the State of Israel, (2) Kornit Digital North America Inc., which was incorporated on September 12, 2007 under the laws of the State of Delaware, (3) Kornit Digital Europe GmbH, which was incorporated on April 20, 2011 under the laws of Germany, (4) Kornit Digital Asia Pacific Limited, which was incorporated on November 18, 2009 under the laws of Hong Kong, (5) Kornit Digital UK Ltd., which was incorporated on August 30, 2017 under the laws of England and Wales, and (6) Kornit Digital Japan KK which was incorporated on March 9, 2020 under the laws of Japan.

Custom Gateway Limited, which was incorporated on May 5, 2010 under the laws of England and Wales, is wholly owned by Kornit Digital UK Ltd. Custom Gateway Limited has several subsidiaries.

Kornit (Shanghai) Digital Co., Ltd., which was incorporated on December 8, 2021, is wholly owned by Kornit Digital Asia Pacific Limited.

D. Property, Plant and Equipment

Our corporate headquarters are located in Rosh Ha’Ayin, Israel in an office and research and development facility consisting of approximately 172,567 square feet. The lease for this office expires in December 2025, with an option to extend the lease for an additional five years. We lease an additional facility of approximately 9,687 square feet near our corporate headquarters. The lease for this additional space expires in December 2025 (the parties to the lease have not yet executed the addendum to the lease). We lease an additional facility of 4,305 square feet near our corporate headquarters. The lease for this additional space expires on March 31, 2022. In Israel, we also lease a manufacturing facility in Kiryat Gat, which consists of approximately 14,600 square feet. The lease for the Kiryat Gat manufacturing facility expires on August 31, 2022. In January 2022, we announced the official opening of a new, modern, manufacturing facility in Kiryat Gat. We own the property and the building at this facility.

Our U.S. headquarters are located in Englewood, New Jersey. We have entered into a lease for these headquarters, which are comprised of approximately 15,845 square feet of offices and warehouse. The lease for this location expires in February 2028. We are currently seeking larger office and show room space in New Jersey. We have not as of yet entered into any new lease agreement for any such additional space. We maintain additional sales, support and marketing offices in Dusseldorf, Hong Kong, United Kingdom, Massachusetts, Slovakia, and Japan. We also maintain a disaster recovery site in Milwaukee, Wisconsin, where we manufacture the fixation agent for some of our printers.

ITEM 4A. Unresolved Staff Comments.

None.

ITEM 5. Operating and Financial Review and Prospects.

The information contained in this section should be read in conjunction with our financial statements for the year ended December 31, 2021 and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. GAAP. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. As a result of many factors, such as those set forth under "ITEM 3.D. Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements," our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We develop, design and market innovative digital printing solutions for the global printed textile industry. Our vision is to revolutionize this industry by facilitating the transition from analog processes that have not evolved for decades to digital methods of production that address contemporary supply, demand and environmental dynamics. We focus on the rapidly growing high throughput DTG and DTF segments of the printed textile industry. Our solutions include our proprietary digital printing systems, ink and other consumables, associated software and value-added services that allow for large scale printing of short runs of complex images and designs directly on finished garments and fabrics.

We have developed and offer a broad portfolio of differentiated digital printing solutions for the DTG market that provide answers to challenges faced by participants in the global printed textile industry. Our DTG solutions utilize our patented wet-on-wet printing methodology that eliminates the common practice of separately coating and drying textiles prior to printing. This methodology also enables printing on a wide range of untreated fabrics, including cotton, wool, polyester, lycra and denim. Our patented NeoPigment ink and other consumables have been specially formulated to be compatible with our systems and overcome the quality-related challenges that pigment-based inks have traditionally faced when used in digital printing. Our software solutions simplify workflows in the printing process, by offering a complete solution from web order intake through graphic job preparation and execution.

Building on the expertise and capabilities that we have accumulated in developing and offering differentiated solutions for the industrial DTG market, we also market an industrial digital printing solution, the Presto, which targets the on-demand DTF market. While the DTG market generally involves printing on finished garments, the DTF market is focused on printing on fabrics that are subsequently converted into finished garments, home or office décor, and other items. The Presto and Presto MAX (like our predecessor DTF product, the Allegro) utilize our proprietary wet-on-wet printing methodology and house an integrated drying and curing system. It offers the sole (following its predecessor, the Allegro) single-step, eco-friendly, stand-alone industrial DTF digital textile printing solution available on the market. We primarily market the Presto to innovative web-based businesses operating on-demand business models that require a high degree of variety and limited quantity orders, as well as to fabric converters, which source large quantities of fabric and convert untreated fabrics into finished materials to be sold to garment and home décor manufacturers. We believe that with the Presto we are well positioned to take advantage of the growing trend towards customized home décor and on-demand fabric printing. We began selling the Presto commercially in the second quarter of 2019 (after having introduced our initial DTF digital textile printing solution, the Allegro, four years earlier, in the second quarter of 2015).

Our go-to-market strategy consists of a hybrid model of indirect and direct sales, with a trend towards adopting a direct sales model in certain key markets, as we have done in North America. We have historically generated a significant portion of our sales through a global network of independent distributors and value added resellers that we refer to as our channel partners. Our channel partners, in turn, sell the solutions they purchase from us to customers for whom we provide installation services, or sell and install our solutions on their own. Our channel partners work closely with our sales force and assist us by identifying potential sales targets, closing new business and maintaining relationships with and, in certain jurisdictions, providing support directly to our customers. Our agreement with our previous primary independent distributor in North America terminated effective as of February 7, 2019, following which we transitioned towards a direct sales model in that region.

Maintenance and support for our systems is performed either by our own service organization or by service engineers employed by our distributors. This varies among the four regions that we currently serve, depending on the infrastructure we have established in each particular region. We provide professional services directly to some of our customers in all regions. Our customers can renew maintenance and support contracts for additional periods by purchasing a maintenance and support package that covers remote support, software upgrades and onsite yearly maintenance or they can choose to rely on our support on a non-contractual time and material basis.

We have an attractive business model that results in recurring sales of ink and other consumables driven by our growing installed base of systems. Our ink and other consumables are specially formulated to enable our systems to operate at the highest throughput level while adhering to high print quality requirements.

We intend to capitalize on the continued growth of the DTG market by expanding our diverse global customer base, with particular focus on the fast-growing web-to-print businesses. We also seek to increase our sales to existing customers, particularly sales of our ink and other consumables. At the same time, we look to acquire new high-volume customers, which drives higher sales of ink and other consumables. We are also seeking to extend our serviceable addressable market by introducing new features and functionality that enhance the capabilities of our systems and inks, and enable our systems to print on new types of media. We plan to accomplish these goals by investing in our direct sales force, developing new applications for our systems, introducing new solutions and growing our relationships with channel partners.

We were founded in 2002 in Israel and shipped our first system in 2005. As of December 31, 2021, we had 882 employees located across four primary regions: Israel, America, Europe and the Asia Pacific regions.

A. Operating Results

The information contained in this section should be read in conjunction with our audited financial statements for the years ended December 31, 2019, 2020 and 2021 and related notes and the information contained in ITEM 18. Financial Statements. Our financial statements have been prepared in accordance with US GAAP.

Components of Statement of Operations

Revenues

Systems, Ink and Other Consumables, Value Added Services

Our revenues are generated from sales of our systems, ink and other consumables and service including software subscriptions. We target an equal mix of revenues from our systems compared to ink and other consumables, due to our growing installed base, which generates recurring revenues from sales of ink and other consumables. We do not, however, consider period-to-period changes in our total installed base to be a helpful metric in assessing our performance because we sell a number of different systems that have significantly different throughput characteristics and average selling prices. Our installed base does not, therefore, serve to indicate revenues from future systems sales or expected consumables sales. Instead, because we have not experienced material changes in the prices at which we sell ink and other consumables, we believe the best measure of the success of our strategy for recurring revenues from our growing installed base is the amount of the increase in revenues from ink and other consumables that is generated in each period.

We generate the services portion of our revenues from the provision of spare parts to our distributors and customers, system upgrades, post-warranty service contracts, time and material based services and software subscriptions.

We have historically sold our products directly and through independent distributors who resell them to customers. Sales by our distributors accounted for approximately 14% and 13% of our revenues during 2020 and 2021, respectively. On February 7, 2019, our agreement with our previous primary independent distributor in North America, which accounted for 15% of our revenues in the year ended December 31, 2018, terminated.

We recognize revenues in accordance with ASC No. 606, "Revenue from Contracts with Customers". As such, we recognize revenue under the core principle that transfer of control to our customers should be depicted in an amount reflecting the consideration we expect to receive in revenue. Therefore, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when, or as, we satisfy a performance obligation.

We periodically provide customer incentive programs including product discounts, volume-based rebates and warrants, which are accounted for as variable consideration which is deducted from revenue in the period in which the revenue is recognized. These reductions to revenue are made based upon reasonable and reliable estimates that are determined by historical experience and the specific terms and conditions of the incentive

See "-Critical Accounting Policies-Revenue Recognition".

Geographic Breakdown of Revenues

The following table sets forth the geographic breakdown of revenues from sales to customers located in the regions indicated below for the periods indicated:

	2019		2020		2021	
	$	%	$	%	$	%
	(in thousands except percentages)					
U.S.	$ 100,457	55.9%	$ 124,375	64.3%	$ 211,294	65.6%
EMEA	48,810	27.1	45,859	23.7	78,686	24.4
Asia Pacific	22,101	12.3	14,211	7.4	23,341	7.2
Other	8,498	4.7	8,886	4.6	8,685	2.8
Total revenues	$ 179,866	100.0%	$ 193,331	100%	$ 322,006	100%

Shipping and handling

Shipping and handling fees that are charged to our customers are recognized as revenue in the period shipped and the related costs for providing these services are recorded as a cost of revenues.

Cost of Revenues and Gross Profit

Cost of revenues consists primarily of payments to the third-party contract manufacturers who assemble our systems and who are responsible for ordering most of the components for those systems. Cost of revenues also includes components for our systems for which we are responsible, such as print heads, as well as raw materials for ink and other consumables. Cost of revenues includes personnel expenses, such as operation and supply chain employees, and related overhead for the manufacturing of our systems, as well as expenses for service personnel involved in the installation and support of our systems, shipping and handling fees, amortization of intangible assets, and overhead for the manufacturing process of ink and other consumables. We expect cost of revenues to increase in absolute dollars due to increased revenues but remain relatively constant or decrease as a percentage of total revenues, as we continue to improve our manufacturing processes and supply chain and as the costs related to our service infrastructure, which have a fixed component, are leveraged across a larger installed base.

Gross profit is revenues less cost of revenues. Gross margin is gross profit expressed as a percentage of total revenues. Our gross margin has historically fluctuated from period to period as a result of changes in the mix of the systems that we sell and the amount of revenues that we derive from ink and other consumables versus systems. In general, we generate higher gross margins from our high throughput systems compared to entry level systems. In addition, customers that purchase our high throughput systems generally use larger quantities of ink and other consumables, which generate higher margins than sales of systems. We expect that gross margins will increase due to improvements in economies of scale and improvements in services gross margin.

We currently provide maintenance and support for all of our systems sold in the United States. We seek to increase the number of customers that rely on us to provide maintenance and support for their systems by expanding our maintenance and support capabilities. In addition to driving gross margin improvement, we believe this will provide an opportunity for direct contact with customers with the goal of reducing system down-time, educating customers about optimal use of our systems to drive increased utilization, expanding the variety of print applications and increasing sales of post-warranty service contracts and other professional application development services. Our service operations have not been profitable on a stand-alone basis. We are seeking to generate greater revenues from our service offering, and thereby leverage the fixed cost component associated with it, by increasing sales of post-warranty service contracts, selling upgrade kits and providing other professional services.

Operating Expenses

Our operating expenses are classified into three categories: research and development expenses, net, sales and marketing expenses, and general and administrative expenses. For each category, the largest component is generally personnel costs, consisting of salaries and related personnel expenses, including share-based compensation expenses. Operating expenses also include allocated overhead costs for facilities, including rent payments under our facility leases. We expect personnel and allocated costs to continue to increase at a controlled pace as we hire new employees to support growth of our business, but at a slower pace than in prior years. In the long term, we expect operating expenses to decrease as a percentage of revenues.

Research and Development Expenses, net. The largest component of our research and development expenses, net of government grants is salaries and related personnel expenses for our research and development employees. Research and development expenses also include: purchases of laboratory supplies; expenses related to beta testing of our systems; amortization of intangible assets; and allocated overhead costs for facilities, including rent payments under our facilities leases. We record all research and development expenses as they are incurred, except for development expenses which are capitalized in accordance with ASC 350-40. We expect research and development expenses to increase in absolute terms as we continue to hire additional personnel for the development of upgrades to existing systems and additional systems that we develop. Our current research and development efforts are primarily focused on our next generation of DTF and DTG systems. We are also investing in the development of new ink formulas for our new systems and in order to expand the range of fabrics on which we can print and further improve color quality and diversification of our high-resolution images and designs. We are improving our software solutions to simplify workflows in the printing process, by offering a complete solution from web order intake through graphic job preparation and execution.

Sales and Marketing Expenses. The largest component of our sales and marketing expenses is salaries and related personnel expenses for our marketing, sales and other sales-support employees. Sales and marketing expenses also include trade shows, other advertising and promotions, including distributor open houses and media advertising; sales-based commissions and allocated overhead costs for facilities, including rent payments under our facilities leases. We market our solutions using a combination of internal marketing professionals and our network of channel partners. We expect sales and marketing expenses to continue to increase in absolute terms in the near term as we add sales and marketing personnel, including pursuant to our direct product distribution strategy in certain key markets.

General and Administrative Expenses. The largest component of our general and administrative expenses is salaries and related personnel expenses for our executive officers, financial staff, information technology staff, and human resources staff. General and administrative costs also include fees for accounting and legal services, insurance and costs for facilities, including rent payments under our facilities leases, partially allocated to other departments. We expect our general and administrative expenses to increase in absolute terms in the near term, but at a slower pace than in prior years, in which we hired a substantial amount of additional personnel to support our growth and to support our operations at our U.S. headquarters at Englewood, New Jersey.

Finance Income, Net

Finance income, net consists of interest income and foreign currency exchange gains or losses. Foreign currency exchange changes reflect gains or losses related to changes in the value of our non-U.S. dollar denominated financial assets, primarily cash and cash equivalents, and trade payables and receivables. As of December 31, 2021, we did not have any indebtedness for borrowed amounts. Interest income consists of interest earned on our cash, cash equivalents, short-term bank deposits and marketable securities, offset by amortization of premium on marketable securities. We expect interest income to vary depending on our average investment balances and market interest rates during each reporting period.

Taxes on Income

The corporate tax rate in Israel has been 23% for 2018 and all subsequent years. However, as discussed in greater detail below under “Taxation and Israeli Government Programs Applicable To Our Company — Israeli Tax Considerations and Government Programs,” we and our wholly-owned Israeli subsidiary, Kornit Digital Technologies Ltd., which we refer to as Kornit Technologies, are entitled to various tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959, or the Investment Law.

We consolidate the two separate results of our Israeli operations only for tax purposes such that net operating loss carryforwards of Kornit Technologies generated from 2014 onwards can be used to offset our taxable income. Kornit Technologies currently has enough carryforward net operating losses to offset our taxable income.

Beginning in January 2019, and with respect to its taxable results from 2019 onwards, our Israeli subsidiary further elected to apply the terms of the Investments Law as per its “Preferred Technological Enterprise,” or PTE, status. Accordingly, we were not subject to effective income tax in Israel in 2019 or 2020. In 2021, we were subject to income tax in Israel only on our interest income, which is not connected to our business activities. In each of 2019, 2020 and 2021, our effective tax rate was the blended rate of our Israeli tax and those of our non-Israeli subsidiaries in their respective jurisdictions of organization.

Comparison of Period to Period Results of Operations

We provide in this section data, as well as discussion and analysis, with respect to our results of operations for the last two years. While our statements of operations in Item 18 of this annual report cover each of the three years ended December 31, 2019, 2020 and 2021, the data, and discussion and analysis, in this Item 5.A do not address the year ended December 31, 2019, or a comparison of that year to the year ended December 31, 2020. In order to view that data, and discussion and analysis, please see “ITEM 5. Operating and Financial Review and Prospects - A. Operating Results - Comparison of Period to Period Results of Operations - Comparison of the Years Ended December 31, 2019 and 2020” in our Annual Report on Form 20-F for the year ended December 31, 2020, which we filed with the SEC on March 25, 2021.

Comparison of the Years Ended December 31, 2020 and 2021

The following tables present a comparison of the various components of our results of operations for the years ended December 31, 2020 and 2021, both in absolute amounts and as a percentage of our revenues in those respective years.

	Year Ended December 31,	
	2020	2021
	(in thousands)	
Revenues		
Products	$ 164,918	$ 282,637
Services	28,413	39,369
Total revenues	193,331	322,006
Cost of revenues		
Products	75,040	132,730
Services	30,490	37,365
Total cost of revenues	105,530	170,095
Gross profit	87,801	151,911
Operating expenses:		
Research and development, net	31,464	43,729
Sales and marketing	36,405	58,752
General and administrative	26,661	36,637
Total operating expenses	94,530	139,118
Operating income (loss)	(6,729)	12,793
Finance income, net	3,498	2,599
Income (loss) before taxes on income (tax benefit)	(3,231)	15,392
Taxes on income (tax benefit)	1,552	(135)
Net income (loss)	$ (4,783)	$ 15,527

	Year Ended December 31,	
	2020	2021
	(as a % of revenues)	
Revenues		
Products	85.3%	87.8%
Services	14.7	12.2
Total revenues	100	100
Cost of revenues		
Products	38.8	41.2
Services	15.8	11.6
Total cost of revenues	54.6	52.8
Gross profit	45.4	47.2
Operating expenses:		
Research and development, net	16.3	13.6
Sales and marketing	18.8	18.2
General and administrative	13.8	11.4
Total operating expenses	48.9	43.2
Operating income (loss)	(3.5)	4.0
Finance income, net	1.8	0.8
Income (loss) before taxes on income (tax benefit)	(1.7)	4.8
Taxes on income (tax benefit)	0.8	(0.04)
Net income (loss)	(2.5)%	4.8%

Revenues

Revenues increased by $128.7 million, or 66.6%, to $322.0 million in 2021 from $193.3 million in 2020, which is net of $5.4 million and $25.4 million, in 2020 and 2021, respectively, in fair value of the warrants associated with revenues recognized from Amazon. The growth in revenues resulted from: an increase of 105.8% in systems revenues from $87.8 million in 2020 to $180.7 million in 2021, a 31.2% increase in ink and other consumables revenues to $101.2 million in 2021 from $77.1 million in 2020; a 38.7% increase in service revenues to $39.4 million in 2021 from $28.4 million in 2020. The $24.0 million increase in ink and other consumables revenues was due to a larger installed base, partially offset by a transition in our installed base to HD technology which consumes a lower amount of ink and other consumables on a relative basis. The increase in our service revenues was due to revenues generated from sale of software subscriptions, and due to an increase in sales of spare parts and service contracts to our larger installed base, as well as an increase in systems upgrades.

Cost of Revenues and Gross Profit

Cost of revenues increased by $64.6 million, or 61.2%, to $170.1 million in 2020 from $105.5 million in 2020. Gross profit increased by $64.1 million, or 73.0%, to $151.9 million in 2021 from $87.8 million in 2020. Gross margin increased to 47.2% in 2021 compared to 45.4% in 2020 due to an increase in our sales of Atlas and Atlas Max systems, and the contribution of ink and consumables to the gross margin.

Operating Expenses

	Year Ended December 31,					
	2020		2021		Change	
	Amount	% of Revenues	Amount	% of Revenues	Amount	%
	($ in thousands)					
Operating expenses:						
Research and development, net	$ 31,464	16.3%	$ 43,729	13.6%	$ 12,265	39.0%
Sales and marketing	36,405	18.8	58,752	18.2	22.347	61.4
General and administrative	26,661	13.8	36,637	11.4	9,976	37.4
Total operating expenses	$ 94,530	48.9%	$ 139,118	43.2%	$ 44,588	47.2%

Research and Development, net. Research and development, or R&D, expenses, net of government grants, increased by 39.0% in 2021 compared to 2020. This primarily reflected the robust growth in our operations in 2021 and was mainly driven by our continued investment in innovation, new products and the additional costs of Voxel 8. The increased net R&D expenses mainly related to personnel expenses and share-based compensation due to an increase in the number of employees, with higher seniority and variable compensation payout, compared to 2020. As a percentage of total revenues, our R&D expenses decreased to 13.6% in 2021 from 16.3% in 2020.

Sales and Marketing. Sales and marketing expenses increased by 61.4% in 2021 compared to 2020. This increase was primarily due to our continued efforts and investment to enhance our go-to-market, or GTM, strategy**,** as well as various marketing projects, activities and events with customers. As a percentage of total revenues, our sales and marketing expenses decreased from 18.8% in 2020 to 18.2% in 2021.

General and Administrative. General and administrative expenses increased by 37.4% in 2021 compared to 2020. This primarily resulted from investing in our infrastructure to support our growing organization, IT systems and additional personnel. As a percentage of total revenues, our general and administrative expenses decreased from 13.8% in 2020 to 11.4% in 2021.

Finance Income, Net

Finance income, net, amounted to $3.5 million in 2020 compared to finance income, net, of $2.6 million in 2021. The $0.9 million decrease primarily resulted from an increase in financial expenses related to a net amortization of premium and accretion of discount on marketable securities.

Taxes on Income

Taxes on income amounted to $0.1 million of income tax expenses in 2021, compared to $1.6 million of income tax expenses in 2020. The change was mainly due to a decrease in our uncertain tax positions in 2021 relative to 2020. For more information, please see Note 14(h) to our consolidated financial statements that appear in Item 18 of this Annual Report. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. As of each reporting date, our management considers new evidence, both positive and negative, that could impact management's view with regards to the future realization of deferred tax assets for each jurisdiction.

For more information concerning our income tax expenses, please see the risk factor in Item 3.D above that begins "We may be subject to additional tax liabilities in the future as a result of audits of our tax returns."

Taxation and Israeli Government Programs Applicable to Our Company

Israeli Tax Considerations and Government Programs

The following is a brief summary of the material Israeli tax laws applicable to us, and certain Israeli Government programs that benefit us.

General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax on their taxable income. Since 2018, the corporate tax rate has been 23%. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Benefited Enterprise, a Preferred Enterprise, a Special Preferred Enterprise, a Preferred Technology Enterprise or Special Preferred Technology Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

Law for the Encouragement of Industry (Taxes), 5729-1969

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for "Industrial Companies". The Israeli companies are an "Industrial Company" as defined by the Israeli Law for the Encouragement of Industry (Taxation), 1969.

The Industry Encouragement Law defines an “Industrial Company” as a company resident in Israel, which was incorporated in Israel and of which 90% or more of its income in any tax year, other than income from certain government loans, is derived from an “Industrial Enterprise” located in Israel or in the “Area”, in accordance with the definition under section 3A of the Israeli Income Tax Ordinance (New Version) 1961, or the Ordinance, and owned by it. An “Industrial Enterprise” is defined as an enterprise whose principal activity in any given tax year is industrial production.

The following tax benefits, among others, are available to Industrial Companies:

- amortization of the cost of purchased know-how, patents and rights to use a patent and know-how or certain other intangible property rights (other than goodwill) that were purchased in good faith and are used for the development or promotion of the Industrial Enterprise, over an eight-year period commencing on the year in which such rights were first exercised;

- under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies controlled by it; and

- expenses related to a public offering are deductible in equal amounts over three years, commencing in the year of the offering.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

There can be no assurance that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Law for the Encouragement of Capital Investments, 5719-1959

The Law for the Encouragement of Capital Investments, 5719-1959, generally referred to as the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets) by “Industrial Enterprises” (as defined under the Investment Law).

The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005, or the 2005 Amendment, as of January 1, 2011, or the 2011 Amendment and as of January 1, 2017, or the 2017 Amendment. Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the 2005 Amendment. Similarly, the 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and have the benefits of the 2011 Amendment apply. We have examined the possible effect of these provisions of the 2011 Amendment on our financial statements and have decided not to opt to apply the new benefits under the 2011 Amendment and the 2017 Amendment for our company, and for our Israeli subsidiary we elected to apply the benefit under the 2011 Amendment. The 2017 Amendment introduces new benefits for Technological Enterprises, alongside the existing tax benefits.

The following discussion is a summary of the Investment Law following its most recent amendments:

Tax Benefits Subsequent to the 2005 Amendment

The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005, referred to as Approved Enterprises. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment became effective (April 1, 2005) will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Israeli Authority for Investments and Development of the Industry and Economy, or the Investment Center, will continue to grant Approved Enterprise status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise.

The 2005 Amendment provides that Approved Enterprise status will only be necessary for receiving cash grants. As a result, it was no longer necessary for a company to obtain the advance approval of the Investment Center in order to receive the tax benefits previously available under the alternative benefits track. Instead, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. Companies or programs under the new provisions receiving these tax benefits are referred to as Benefited Enterprises. A company that has a Benefited Enterprise may, at its discretion, approach the Israel Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law, as amended.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) which are generally required to derive more than 25% of their business income from export to specific markets with a population of at least 14 million in 2012 (such export criteria will further be increased in the future by 1.4% per annum). In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets certain conditions set forth in the amendment for tax benefits, including exceeding a minimum investment amount specified in the Investment Law. Such investment entitles a company to receive a “Benefited Enterprise” status with respect to the investment, and may be made over a period of no more than three years ending in the year in which the company requested to have the tax benefits apply to its Benefited Enterprise. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a Benefited Enterprise and the company’s effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a Benefited Enterprise must exceed a certain percentage of the value of the company’s production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Benefited Enterprise depends on, among other things, the geographic location within Israel of the Benefited Enterprise. The location will also determine the period for which tax benefits are available. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year. The benefits period is limited to 12 years from the year the company first chose to have the tax benefits apply.

A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its Benefited Enterprise during the tax exemption period will be subject to deferred corporate tax in respect of the gross amount of the dividend distributed (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate which would have otherwise been applicable. Dividends paid to Israeli shareholders out of income attributed to a Benefited Enterprise (or out of dividends received from a company whose income is attributed to a Benefited Enterprise) are generally subject to withholding tax at source at the rate of 15% (in the case of non-Israeli shareholders - subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate, 15%, or such lower rate as may be provided in an applicable tax treaty). The reduced rate of 15% is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at a lower rate under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). In the case of a Foreign Investors’ Company (as such term is defined in the Investment Law), the 12-year limitation on reduced withholding tax on dividends does not apply.

During the years 2010 to 2019, we were entitled to a tax exemption for undistributed income ("**Trapped Profits**") and a reduced tax rate under the Benefited Enterprise programs under the Investment Law. Our company enjoyed these tax benefits until 2019. On November 15, 2021, a new amendment of the Investment Law was enacted harshening the rules with respect to determining the profits from which a dividend was distributed and providing that part of any dividend distribution will be deemed as distributed from the Trapped Profits, according to a certain formula.

Tax Benefits under the 2011 Amendment

The 2011 Amendment canceled the availability of the benefits granted to companies in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its "Preferred Enterprise" (as such terms are defined in the Investment Law) as of January 1, 2011. The definition of a Preferred Company includes an industrial company that was incorporated in Israel, which is not wholly owned by a governmental entity, and which has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate flat tax rate of 15% with respect to its preferred income derived by its Preferred Enterprise in 2011 and 2012, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and increased to 16% and 9% in 2014 and through 2016. Pursuant to the 2017 Amendment, in 2017 and thereafter, the corporate tax rate for a Preferred Enterprise which is located in a specified development zone was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%. Income derived by a Preferred Company from a 'Special Preferred Enterprise' (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone. As of January 1, 2017, the definition of "Special Preferred Enterprise" includes less stringent conditions.

The tax benefits under the 2011 Amendment also include accelerated depreciation and amortization for tax purposes.

Dividends paid to Israeli shareholders out of preferred income attributed to a Preferred Enterprise or to a Special Preferred Enterprise are generally subject to withholding tax at source at the rate of 20% (in the case of non-Israeli shareholders - subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate, 20% or such lower rate as may be provided in an applicable tax treaty). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if subsequently distributed to individuals or a non-Israeli company, withholding of 20% or such lower rate as may be provided in an applicable tax treaty will apply).

The 2011 Amendment also provided transitional provisions to address companies already enjoying existing tax benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise which chose to receive grants and certain tax benefits before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise which had participated in an alternative benefits track before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met; and (iii) a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met. Kornit Technologies has filed a notification that it wishes to apply the new benefits under the 2011 Amendment.

New Tax benefits under the 2017 Amendment that became effective on January 1, 2017.

The 2017 Amendment provides new tax benefits for two types of "Technology Enterprises", as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a Preferred Technology Enterprise and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as “Preferred Technology Income”, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technology Enterprise located in development zone A. These corporate tax rates shall apply only with respect to the portion of the Preferred Technology Income derived from R&D developed in Israel. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain “Benefitted Intangible Assets” (as defined in the Investment Law) to a related foreign company if the Benefitted Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Authority (previously known as the Israeli Office of the Chief Scientist), referred to as the Israel Innovation Authority (“IIA”) .

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a “Special Preferred Technology Enterprise” and will thereby enjoy a reduced corporate tax rate of 6% on “Preferred Technology Income” regardless of the company’s geographic location within Israel. In addition, a Special Preferred Technology Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain “Benefitted Intangible Assets” to a related foreign company if the Benefitted Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from the IIA. A Special Preferred Technology Enterprise that acquires Benefitted Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed to Israeli shareholders by a Preferred Technology Enterprise or a Special Preferred Technology Enterprise, paid out of Preferred Technology Income, are generally subject to withholding tax at source at the rate of 20% (in the case of non-Israeli shareholders - subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate, 20%) or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). If such dividends are distributed to a foreign parent company holding, solely or together with another foreign company, at least 90% of the shares of the distributing company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate).

We believe that we and our Israeli subsidiary meet the conditions for “Preferred Technological Enterprises”, and accordingly are eligible for the tax rate of 12% on income that qualifies as “Preferred Technology Income”, as defined in the Law. The tax rate for Preferred Technological Enterprises located in development zone A is 7.5%.

From time to time, the Israeli Government has discussed reducing the benefits available to companies under the Investment Law. The termination or substantial reduction of any of the benefits available under the Investment Law could materially increase our tax liabilities.

B. Liquidity and Capital Resources

We provide below a summary of our consolidated statement of cash flows for the last two years. While our statements of cash flows in Item 18 of this annual report include cash flow data for each of the three years ended December 31, 2019, 2020 and 2021, the data and discussion contained in this Item 5.B is limited to a comparison of our liquidity and capital resources— including cash flows— for the years ended December 31, 2020 and 2021. For a discussion of our cash flows for the year ended December 31, 2019, and a comparison of those cash flows with those for the year ended December 31, 2020, please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources” in our Annual Report on Form 20-F for the year ended December 31, 2020, which we filed with the SEC on March 25, 2021.

As of December 31, 2021, we had $611.5 million in cash and cash equivalents, $9.2 million in short term deposits and $177.4 million in marketable securities, which, in the aggregate, total $798.1 million. We fund our operations with cash generated from operating activities and cash raised via our equity financings.

Our cash requirements have principally been for working capital, capital expenditures and acquisitions. Our working capital requirements reflect the growth in our business. Historically, we have funded our working capital requirements (primarily for inventory and accounts receivable) and capital expenditures from cash flows provided by our operating activities, investments in our equity securities and cash and cash equivalents on hand. We have funded our acquisitions from the proceeds of our April 2015 initial public offering and cash on hand. In 2021, our capital expenditures primarily related to the completion of construction of our manufacturing facility for our ink and other consumables in Kiryat Gat, Israel. In addition to investments in this facility, our capital investments have included improvements and expansion of our worldwide locations and corporate facilities to support our growth and investment and improvements in our information technology.

In 2020 and 2021, we acquired Custom Gateway and Voxel8, respectively, for cash consideration of $16.9 million and $15.0 million. In 2022 we will acquire Tesoma, for cash consideration of approximately Euro 11 million, subject to the fulfillment of closing conditions. We will continue to actively seek strategic acquisitions that may require investments of cash. We believe that our current cash reserves will suffice for any such acquisitions, although there can be no assurance that we will not need to seek additional equity or debt financing in order to cover the cost of such potential acquisitions.

The most significant elements of our working capital requirements are for inventory, accounts receivable and trade payables. We partially fund the procurement of the components of our systems that are assembled by our third-party manufacturers. Our inventory strategy includes maintaining inventory of systems and inks and other consumables at levels that we expect to sell during the successive three-month period based on anticipated customer demand. Our accounts receivable slightly decreased in 2021 due to the increase in our collection efforts. Our trade payables increased in 2021 due to an increase in sales projected for 2022 compared to the projection for 2021 and due to our efforts to ensure smooth supply of our products and overcome global supply chain difficulties.

As of December 31, 2021, we had a line of credit with an Israeli bank for total borrowings of up to $1.1 million, all of which was undrawn as of that date. These lines of credit are unsecured and available subject to: (i) our maintenance of a 30% ratio of total tangible shareholders' equity to total tangible assets; and (ii) the total credit use must be less than 70% of our and our subsidiaries' receivables. Interest rates across these credit lines varied from 0.29% to 2.3% as of December 31, 2021.

Based on our current business plans, we believe that our cash flows from operating activities and our existing cash resources will be sufficient to fund our projected cash requirements for at least the next 12 months without drawing on our lines of credit or using significant amounts of the net proceeds from our initial public offering or our follow-on offerings. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support product development efforts, the expansion of our sales and marketing activities, the timing of introductions of new solutions and the continuing market acceptance of our solutions, as well as other business development efforts.

The following table presents the major components of net cash flows for our last two fiscal years:

	Year Ended December 31,	
	2020	**2021**
	(in thousands)	
Net cash provided by operating activities	$ 32,410	$ 53,644
Net cash provided by (used in) investing activities	(114,630)	89,755
Net cash provided by financing activities	167,045	342,375

Net Cash Provided by Operating Activities

Year Ended December 31, 2021

Net cash provided by operating activities in the year ended December 31, 2021 was $53.6 million.

Net cash provided by operating activities in 2021 reflected our net income of $15.5 million, as adjusted upwards to eliminate non-cash expense line items included in our statement of operations, such as share-based compensation expenses ($15.1 million), the fair value of warrants deducted from our revenues ($25.4 million), and depreciation and amortization ($7.1 million). These adjustments were offset in part by the elimination of certain non-cash changes to our operating assets and liabilities, which, when eliminated, had a net impact of reducing the cash provided by our operating activities, including a decrease in deferred revenues and advances from customers ($21.7 million) and an increase in other accounts receivables and prepaid expenses ($4.1 million).

During 2021, our accounts receivable decreased by $1.8 million. DSO for the year ended December 31, 2021 decreased to 56 days compared to 98 days for the year ended December 31, 2020. While our revenues increased significantly in the year ended December 31, 2021, we maintained a relatively similar level of accounts receivable, which resulted in a significant decrease in DSO; that reflects strong collection on our part of obligations from our customers.

During 2021, our inventory increased by a net amount of $10.5 million compared to the year ended December 31, 2020. $14.1 million of inventory was attributed to cash operating activities in the year ended December 31, 2021. The increase in inventory levels in 2021 was primarily due to the cost of deferred systems and the need to maintain higher levels of inventory to support our increased install base and future business activities.

We had an increase of $12.9 million in trade payables in 2021 that mainly derived from an increase in the sales that we projected for 2022 compared to 2021, in line with the growth in our sales and operations.

*Year Ended December 31, 20*20

Net cash provided by operating activities in the year ended December 31, 2020 was $32.4 million.

Net cash provided by operating activities reflected our net loss of $4.8 million, as adjusted upwards to eliminate non-cash expense line items included in our statement of operations, including stock-based compensation expenses ($10.0 million), depreciation and amortization ($4.7 million), and fair value of warrants deducted from revenues ($5.4 million). These adjustments were offset in part by the elimination of certain non-cash changes to our operating assets and liabilities included in our net income, which, when eliminated, had a net impact of reducing the cash provided by our operating activities, including the increases in accounts receivable, net and inventory attributed to cash operating activities that are described below.

During 2020, our accounts receivable increased by $9.5 million reflecting the increase in our revenues in 2020. DSO for the year ended December 31, 2020 increased to 98 days compared to 82 days for the year ended December 31, 2019.

During 2020, our inventory increased by a net amount of $15.0 million compared to the year ended December 31, 2019. $15.8 million of inventory was attributed to cash operating activities in the year ended December 31, 2020. The increase in inventory levels in 2020 was primarily due to the cost of deferred systems and the need to maintain higher level of inventory to support increased install base and future business activities.

We had an increase of $6.9 million in trade payables in 2020 that mainly derived from an increase in the sales that we projected for 2021 compared to 2020, in line with the growth in our sales and operations.

We also experienced an increase of $24.3 million in deferred revenues and advances from customers in 2020, which was mainly due to performance obligations that were not fully satisfied.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities was $89.8 million for the year ended December 31, 2021, which was primarily attributable to our net proceeds from short-term bank deposits of $215.6 million and $14.5 million of proceeds from the sale and maturity of marketable securities, as offset, in part, by investment in marketable securities of $110.5 million, purchase of property, plant and equipment of $14.5 million, and $15.0 million of cash paid in connection with acquisitions.

Net cash used in investing activities was $114.6 million for the year ended December 31, 2020, which was primarily attributable to our investment in marketable securities and bank deposits of $165.7 million, purchase of property, plant and equipment of $13.5 million and $15.5 million of cash paid in connection with acquisitions, offset, in part, by $80.2 million of proceeds from the sale and maturity of marketable securities.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $342.4 million for the year ended December 31, 2021, which was primarily attributable to our follow-on offering in November 2021, in which we raised $339.8 million of net proceeds.

Net cash provided by financing activities was $167.0 million for the year ended December 31, 2020, which was primarily attributable to our follow-on offering in September 2020, in which we raised $162.0 million of net proceeds.

C. Research and development, patents and licenses, etc.

For a description of our research and development programs and the amounts that we have incurred over the last three years pursuant to those programs, please see “ITEM 5. Operating and Financial Review and Prospects— A. Operating Results— Components of Statement of Operations— Operating Expenses— Research and Development Expenses, net” and “ITEM 5. Operating and Financial Review and Prospects— A. Operating Results— Comparison of Period to Period Results of Operations— Comparison of the Years Ended December 31, 2020 and 2021— Operating Expenses— Research and Development, net” and the corresponding portions of our Annual Report on Form 20-F for the year ended December 31, 2020, which we filed with the SEC on March 25, 2021.

D. Trend Information

Our results of operations and financial condition may be affected by various trends and factors discussed in “ITEM 3.D Risk Factors,” including “If the market for digital textile printing does not develop as we anticipate, our sales may not grow as quickly as expected and our share price could decline,” and in “ITEM 4.B Business Overview—Industry Overview.” Additional trends that could potentially impact our results of operations and financial condition include changes in political, military or economic conditions in Israel and in the Middle East, general slowing of local or global economies and decreased economic activity in one or more of our target markets.

E. Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). These accounting principles are more fully described in Note 2 to our consolidated financial statements included elsewhere in this annual report and require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. We believe that the accounting policies discussed below are critical to our financial results and to the understanding of our past and future performance, as these policies relate to the more significant areas involving management’s estimates and assumptions. We consider an accounting estimate to be critical if: (1) it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making our estimate; and (2) changes in the estimate could have a material impact on our financial condition or results of operations.

We believe that the following significant accounting policies are the basis for the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We generate revenues from sales of systems, consumables and services. We generate revenues from sale of our products directly to end-users and indirectly through independent distributors, all of whom are considered end-users. We recognize revenue under the core principle that transfer of control to our customers should be depicted in an amount reflecting the consideration we expect to receive in revenue. Therefore, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract, and recognize revenues when, or as, we satisfy a performance obligation.

Revenues from products, which consist of systems and consumables, are recognized at the point in time when control has transferred, in accordance with the agreed-upon delivery terms.

Revenues from services are derived mainly from the sale of print heads, spare parts, upgrade kits, software subscription and service contracts. Our print heads, spare parts and upgrade kits revenues (collectively “Spare parts”) are recognized at the point in time when control has transferred, in accordance with the agreed-upon delivery terms. Service contracts are recognized over time, on a straight-line basis, over the period of the service.

For multiple performance obligations arrangements, such as selling a system with a service contract, installation and training, we account for each performance obligation separately, as it is distinct. The transaction price is allocated to each distinct performance obligation on a relative stand-alone selling price, or SSP, basis, and revenue is recognized for each performance obligation when control has passed. In most cases, we are able to establish SSP based on the observable prices of services sold separately in comparable circumstances to similar customers and for products based on our best estimates of the price at which we would have sold the product regularly on a stand-alone basis. We reassess the SSP on a periodic basis or when facts and circumstances change.

We do not account for training and installation as a separate performance obligation due to its immateriality in the context of our contracts. Accordingly, revenues from training and installation are recognized upon the delivery of our systems.

We periodically provide customer incentive programs in the form of product discounts, volume-based rebates and warrants, which are accounted for as variable consideration that are deducted from revenue in the period in which the revenue is recognized. These reductions to revenue are made based upon reasonable and reliable estimates that are determined according to historical experience and the specific terms and conditions of the incentive.

In cases in which old systems are traded in as part of sales of new systems, the fair value of the old systems is recorded as inventory, provided that such value can be determined.

Inventories

Inventories are measured at the lower of cost or net realizable value. Cost is computed using weighted average cost, on a first-in, first-out basis. Inventory costs consist of material, direct labor and overhead. We periodically assess inventory for obsolescence and excess and reduce the carrying value by an amount equal to the difference between its cost and the estimated net realizable value based on assumptions about future demand and historical sales patterns. This valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as through sales and expected recoverable values of each disposition category. These assumptions about future disposition of inventory are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future.

As of December 31, 2021, we had $63.0 million of inventory, of which $29.9 million consisted of raw materials and components and $33.1 million consisted of completed systems, ink and other consumables. We recorded inventory write-offs in total amounts of $2.6 million, $5.0 million and $4.9 million for the years ended December 31, 2019, 2020 and 2021, respectively.

Share-Based Compensation

Under U.S. GAAP, we account for share-based compensation for employees in accordance with the provisions of the FASB's ASC Topic 718 "Compensation - Stock Based Compensation," or ASC 718, which requires us to measure the cost of options and RSUs based on the fair value of the award on the grant date.

The fair value of each RSU is the market value as determined by the closing share price at the date of the grant.

We selected the binomial option pricing model as the most appropriate method for determining the estimated fair value of options which requires the use of subjective assumptions, including the expected term of the award and the expected volatility of the price of our common stock. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the consolidated financial statements based on the department to which the related employee reports. We will continue to use judgment in evaluating the assumptions related to our share-based compensation expense on a prospective basis. As we continue to accumulate additional data, we may have refinements to our estimates, which could materially impact our future share-based compensation expense.

Taxes

We are subject to income taxes in Israel, United States Germany, Japan, United Kingdom and Hong Kong. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. We recognize income taxes under the liability method. Tax benefits are recognized from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves when facts and circumstances change, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effects of any reserves that are considered appropriate, as well as the related net interest and penalties.

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under U.S. GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. To make this judgment, we must make predictions of the amount and category of taxable income from various sources and weigh all available positive and negative evidence about these possible sources of taxable income.

While we believe the resulting tax balances as of December 31, 2019, 2020 and 2021 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. We have filed or are in the process of filing local and foreign tax returns that may be audited by the respective tax authorities. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement; however, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statute of limitations on potential assessments expire.

Warranty costs

During 2021 we typically granted a six-month warranty on our systems and recorded a provision for warranty at the time at which a product's revenue was recognized. We estimate the liability of possible warranty claims based on our historical experience. We estimate the costs that may be incurred under our warranty arrangements and record a liability in the amount of such costs at the time product revenue is recognized. We periodically assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Marketable Securities

Marketable securities currently are comprised of debt securities. We determine the appropriate classification of marketable securities at the time of purchase and re-evaluate such designation at each balance sheet date. In accordance with FASB ASC No. 320, "Investment Debt and Equity Securities," we classify marketable securities as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity, net of taxes. Realized gains and losses on sales of marketable securities, as determined on a specific identification basis, are included in finance income, net. The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in finance income, net. We classify our marketable securities as either short-term or long-term based on each instrument's underlying contractual maturity date and our expectations as to sales and redemptions in the following year.

On January 1, 2020, we adopted Accounting Standards Update No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, using the modified retrospective transition method. Upon adoption, we modified our impairment model for available-for-sale, or AFS, debt securities and discontinued using the concept of "other than temporary" impairment on AFS debt securities. Each reporting period, we evaluate whether declines in fair value below amortized cost are due to expected credit losses, as well as our ability and intent to hold the investment until a forecasted recovery occurs. Allowance for credit losses on AFS debt securities are recognized in our consolidated statements of income, and any remaining unrealized losses, net of taxes, are included in accumulated other comprehensive income (loss) in stockholders' equity.

During the years ended December 31, 2020 and 2021, no impairment were recorded related to our marketable securities.

Business Combination

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair value. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require our management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired technology and other intangible assets, their useful lives and discount rates. Our management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is not to exceed one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Recently Issued and Adopted Accounting Pronouncements

For a summary of recent accounting pronouncements applicable to our consolidated financial statements see Note 2, "Significant Accounting Policies" to the Consolidated Financial Statements included in Part III, Item 18 of this Annual Report on Form 20-F.

ITEM 6. Directors, Senior Management and Employees.

A. Directors and Senior Management

The following table sets forth the name, age and position of each of our executive officers and directors as of the date of this annual report:

Name	Age	Position
Executive Officers		
Ronen Samuel	53	Chief Executive Officer and Director
Alon Rozner	49	Chief Financial Officer
Jecka Glasman	54	Chief Commercial Officer
Omer Kulka	45	Chief Marketing Officer
Kobi Mann	43	Chief Technology Officer
Directors (who are not also executive officers)		
Yuval Cohen	59	Chairman of the Board of Directors
Ofer Ben-Zur(3)	57	Director
Lauri Hanover(1)(2)(3)	62	Director
Alon Lumbroso(3)	64	Director
Stephen Nigro(3)	62	Director
Yehoshua (Shuki) Nir (1)(2)(3)	52	Director
Dov Ofer(1)(2)(3)	68	Director
Gabi Seligsohn(3)	55	Director

(1) Member of our audit committee.

(2) Member of our compensation committee.

(3) Independent director under the Nasdaq Stock Market rules.

Executive Officers

Ronen Samuel has served as our Chief Executive Officer since August 2018 and as a director since August 2019. Prior to joining our company, Mr. Samuel served in various capacities at Hewlett –Packard, or HP, over the course of the previous 18 years. Most recently, he served as Vice President and General Manager of HP Indigo and WebPress EMEA. Prior to that, Mr. Samuel led HP's Asia Pacific and Japan region for seven years. He was also engaged in Strategic Marketing while at HP, working closely with Research and Development to define future products. While at HP, Mr. Samuel also served in various capacities as product/project manager. Prior to his career in printing technology, Mr. Samuel spent seven years in the Israeli Air Force, rising to the rank of major while serving as a fighter pilot and leading the establishment of Israel's second Apache Squadron. Mr. Samuel received an M.B.A. from Northwestern University's Kellogg School of Management and received an undergraduate Business and Law degree from The Interdisciplinary Center in Herzliya, Israel.

Alon Rozner has served as our Chief Financial Officer since December 2020. Prior to joining us, Mr. Rozner served as the chief financial officer of Orbotech, a leading global supplier of yield-enhancing and process-enabling solutions for the electronics manufacturing industry. Orbotech was traded on Nasdaq (Nasdaq: ORBK) until its acquisition by KLA (Nasdaq: KLAC) in February 2019. During his 13-year tenure at Orbotech he served in a broad range of senior finance, business and operational positions, including executive management positions in the Company's operations in Asia Pacific. Prior to Orbotech, Mr. Rozner served as chief financial officer of Wintegra Inc. a Fabless semiconductor company and as an accountant for Ernst & Young – Israel. He is a CPA and holds a B.A. in Business Administration and Accounting from The Israeli College of Management.

Jecka Glasman has served as our Chief Commercial Officer since November 2019. Prior to joining our company, Ms. Glasman served as the US General Manager for SodaStream (Nasdaq: SODA) since December 2017. Prior to joining SodaStream, for 3 years since November 2014, Jecka was the President and CEO of Mitsubishi Fuso Trucks of America, A Daimler Trucks subsidiary of Daimler AG (ETR: DAI). Jecka began her career as an Officer in the Israel Defense Forces, followed by a decade in the Israeli Prime Minister's Office. She then joined Comverse Technology, a world leader in the telecom industry (Nasdaq: CMVT) where she spent over 10 years progressing from a Project Manager to various sales and operations leadership positions covering Central Europe and EMEA. Her last position at Comverse was Senior VP, Global Services Business Unit. Jecka holds an Executive MBA from Tel Aviv University, a BA in Computer Science and a BA in Economics and Business Administration from the Tel Aviv Jaffa Academic College, Israel.

Omer Kulka has served as our Chief Marketing Officer since July 2017. Omer joined Kornit in 2011 with years of extensive experience in the semiconductor industry, holding positions spanning R&D to Marketing and Business Management. Since joining Kornit he has held several managerial positions at the company including Director of the Wide-Format Division and Director of Product Marketing. Omer holds a BSc in Computer Science, a BA in Philosophy and an MA in History and Philosophy of Sciences and Ideas from Tel Aviv University.

Kobi Mann has served as our Chief Technology Officer since January 2020, prior to which he had held the position of VP Consumables & Application development since September 2017. Kobi Mann joined Kornit in 2004 as an R&D Chemist and has held core technology roles. As one of Kornit's founders he brings over 17 years of experience in the field of Inkjet Technology. Kobi has played a critical role in the design and the execution of core projects and processes in the company. During his tenure at Kornit, he has managed and led R&D Chemistry, technology groups, transfer to production, Print heads and QA as well as lead Kornit's Ink plant design. Prior to his executive, Kobi has held several managerial positions including Business Development of Consumables and Director of Global Application, an arena he established in Kornit. Kobi holds a B.Sc. Chemistry and Executive MBA – both from Bar Ilan University in Israel.

Directors

Yuval Cohen has served as the Chairman of our board of directors since August 2011. Mr. Cohen is the founding and managing partner of Fortissimo Capital, a private equity fund established in 2004 and our former controlling shareholder. From 1997 through 2002, Mr. Cohen was a General Partner at Jerusalem Venture Partners ("JVP"), an Israeli-based venture capital fund. Prior to joining JVP, he held executive positions at various Silicon Valley companies, including DSP Group, Inc. (Nasdaq: DSPG), and Intel Corporation (Nasdaq: INTC). Currently, Mr. Cohen serves as a director of Wix.com Ltd. (Nasdaq: WIX) and as a director of Radware Ltd. (Nasdaq: RDWR). He also serves on the board of directors of several privately held portfolio companies of Fortissimo Capital. Mr. Cohen holds a B.Sc. in Industrial Engineering from Tel Aviv University in Israel and an M.B.A. from Harvard Business School in Massachusetts.

Ofer Ben-Zur is a co-founder of our company and has served as director since 2002. From April 2014 to July 2016, Mr. Ben-Zur served as our President and Chief Technology Officer. From 2002 to April 2014, Mr. Ben-Zur served as our Chief Executive Officer, as well as the manager of our department of research and development. Currently Mr. Ben-Zur serves as the CEO and founder of Tritone Technologies, an Israeli start up specializing in Additive Manufacturing of metals. Mr. Ben-Zur holds a B.Sc. in Mechanical Engineering from the Technion — Israel Institute of Technology in Israel, an M.Sc. in Mechanical Engineering from Tel Aviv University in Israel, and an M.B.A. from Bradford University in England.

Lauri Hanover has served as a member of our board of directors since March 2015 (until August 2019, as an external director under the Companies Law), and serves as the chairperson of our audit committee and a member of our compensation committee. Ms. Hanover serves as Senior Vice President, Community Agriculture since April 2021 and previously served as the Senior Vice President and Chief Financial Officer of Netafim Ltd., a global leader in smart irrigation systems, since August 2013. From 2009 to 2013, she served as Chief Financial Officer and Executive Vice President of the Tnuva Group, Israel's largest food manufacturer. From 2008 to 2009, Ms. Hanover served as Chief Executive Officer of Gross, Kleinhendler, Hodak, Halevy and Greenberg & Co., an Israeli law firm. From 2004 to 2007, she served as Chief Financial Officer and Senior Vice President of Lumenis Ltd. (Nasdaq: LMNS), a medical laser device company. From 2000 to 2004, Ms. Hanover served as the Chief Financial Officer and Corporate Vice President of NICE Systems Ltd. (Nasdaq: NICE), an interaction analytics company, and from 1997 to 2000, as Chief Financial Officer and Executive Vice President of Sapiens International Corporation N.V. (Nasdaq: SPNS), a provider of software solutions for the insurance industry. From 1981 to 2007, she served in a variety of financial management positions, including Corporate Controller and Director of Corporate Budgeting and Financial Analysis at Scitex Corporation Ltd., a developer and manufacturer of inkjet printers, and Senior Financial Analyst at Philip Morris Inc. (Altria), a leading consumer goods manufacturer. Ms. Hanover holds a B.A. from the University of Pennsylvania, a B.S. in Economics from The Wharton School of the University of Pennsylvania, as well as an M.B.A. from New York University.

Alon Lumbroso has served as a member of our Board since March 2015. Since June 2019, Mr. Lumbroso serves as the CEO of Cardo Systems Ltd. the world's leading communication devices for the motorcycle industry. Since June 2015 until August 2017, Mr. Lumbroso has been the chief executive of Dip-Tech Ltd. and from August 2017 until November 2018 served as Managing Director of Dip-Tech that become a subsidiary of Ferro (NYSE: FOE) a leading global functional coatings and color solutions. From 2011 to 2014, Mr. Lumbroso served as President of Mul-T-Lock Ltd., a subsidiary of ASSA ABLOY, a global supplier of locks and security solutions, as well as Market Region Manager of ASSA ABLOY. From 2005 to 2011, he served as Chief Executive Officer and director of Larotec Ltd., a developer and manufacturer of web-based end-to-end solutions. From 2000 to 2003, he served as Managing Director of Creo Europe (now CreoEMEA and formerly CreoScitex), a manufacturer and supplier of digital presses and printers. In addition, from 1998 to 2000, Mr. Lumbroso served as Managing Directors of Scitex and CreoScitex Asia Pacific, Hong Kong. Currently, he serves as a partner and director of iCar 2007 Ltd. Mr. Lumbroso holds a B.Sc. in Industrial Engineering from Tel Aviv University in Israel and an M.B.A. from Bar-Ilan University in Israel.

Stephen Nigro has served as a director of our company since August 2019, after having served as a strategic advisor to our company from April through August 2019. Mr. Nigro retired in early 2019 after 37 years at Hewlett–Packard, or HP, most recently serving as President of HP's 3D printing business, where he created and scaled a new technology and business, serving as a driving force towards HP's leadership in both the plastic and metal 3D printing markets. Mr. Nigro currently is a director at Desktop Metals (DM:NYSE). He also serves on the Oregon Economic Development Committee and is a member of iUrbanTeen, Executive Council which promotes STEM education to underrepresented teens. Prior to heading HP's 3D printing business, Mr. Nigro served as Senior Vice President of HP Imaging and Printing Business, where he was responsible for leading HP's World Wide HP 2D printing business. Prior to that position, Mr. Nigro led the World Wide Inkjet and Graphics Business, which served the consumer, business, and Graphics segments, with both inkjet and LEP printing solutions. Mr. Nigro was involved in initiating several matters at HP, including: delivery of the first HP color inkjet solution to the market; setting up HP's Inkjet Supplies operation in Singapore; development of HP's first off-axis inkjet platform; HP's move into the low-end consumer printing market, delivering a new low-end inkjet platform; creation and scaling of the HP Graphics printing business; the connected printing strategy introducing big data and a new Instant Ink business model; and the creation of the HP 3D printing business. Mr. Nigro spent time at HP's locations in San Diego, California; Corvallis, Oregon; Singapore; Palo Alto; and Vancouver, Washington. Mr. Nigro holds a bachelor's degree in mechanical engineering from the University of California at Santa Barbara and a master's degree in electrical engineering from Stanford University.

Yehoshua (Shuki) Nir has served as a director of our company since July 2018 (until August 2019, as an external director under the Companies Law), and serves as the chairman of our compensation committee and a member of our audit committee. Since June 2021, Mr. Nir has served as a director, a member of the compensation committee and a member of the audit committee, at ironSource Ltd. (NYSE: IS), a global software company that focuses on developing technologies for app monetization. Since July 2021 Mr. Nir has served as a director of Cardo Systems Ltd., which develops, manufactures and markets communication systems for motorcycles. From December 2012 to May 2016, Mr. Nir served as Senior Vice President, Corporate Marketing, and General Manager, Retail of SanDisk Corp., or SanDisk. From March 2008 to November 2012, Mr. Nir served as Senior Vice President and General Manager, Retail of SanDisk. From November 2006 through March 2008, he served in various other sales and marketing roles as a Vice President of SanDisk. Mr. Nir also served in various sales and marketing roles as a Vice President at msystems Ltd. from February 2003 until November 2006, when it was acquired by SanDisk. Prior to that, Mr. Nir held sales and marketing positions at Destinator Ltd. and also co-founded and served as Chief Executive Officer of MindEcho, Inc. Mr. Nir has a B.A. in Law and Accounting and an M.B.A. from Tel Aviv University.

Dov Ofer has served as a member of our board of directors since March 2015 and is a member of our audit and compensation committees. From 2007 to 2013, Mr. Ofer served as Chief Executive Officer of Lumenis Ltd. (Nasdaq: LMNS), a medical laser device company. From 2005 to 2007, he served as Corporate Vice President and General Manager of HP Scitex (formerly a subsidiary of Scailex Corporation Ltd. (TASE: SCIX)), a producer of large format printing equipment. From 2002 to 2005, Mr. Ofer served as President and Chief Executive Officer of Scitex Vision Ltd. Prior to joining Scitex, Mr. Ofer held various managerial positions in the emerging Israeli high-tech sector and participated in different mergers and acquisitions within the industry. Currently, Mr. Ofer serves as chairman of Magen Eco-Energy RCA Ltd., Chairman of Scodix Ltd., Chairman of Stratasys Ltd. (Nasdaq: SSYS) and Director of Copprint. He holds a B.A. in Economics from the Hebrew University in Israel as well as an M.B.A. from the University of California Berkeley in California.

Gabi Seligsohn has served as a member of our board of directors since March 2015. He also served as our Chief Executive Officer from April 2014 through July 2018, and led our successful IPO in April 2015. From August 2006 until August 2013, Mr. Seligsohn served as the President and Chief Executive Officer of Nova Measuring Instruments Ltd., ("Nova") (Nasdaq: NVMI), a designer, developer and producer of optical metrology solutions. From 1998 until 2006, Mr. Seligsohn served in several leadership positions in Nova. Currently, Mr. Seligsohn also serves as a director of DSP Group Inc. (Nasdaq: DSPG), Radware (Nasdaq: RDWR) and Ion Acquisition fund (NYSE: IACA). Mr. Seligsohn was recently appointed (subject to shareholders' approval), as Chairman of the board of directors of Augwind Energy Tech Storage Ltd. (TASE: AUGN). He also serves as a Director on the Board of privately owned PubPlus. In 2010, he was voted Chief Executive Officer of the year by the Israeli Institute of Management for hi-tech industries in the large company category. He holds an LL.B. from the University of Reading in Reading, England.

Arrangements Concerning Election of Directors; Family Relationships

Our board of directors consists of nine directors. We are not a party to, and are not aware of, any voting agreements among our shareholders. In addition, there are no family relationships among our executive officers or senior management members.

As we reported previously, in October 2021 and November 2021, respectively, we appointed Ms. Stef Strack and Mr. Jae Hyun (Jay) Lee, respectively, as strategic advisors to our company and our board of directors, and we furthermore expect to nominate them for election as directors at our 2022 annual general meeting of shareholders.

B. Compensation

The aggregate compensation recorded and equity-based compensation and other compensation expensed by us and our subsidiaries for our directors and executive officers with respect to the year ended December 31, 2021 was $6.3 million. The foregoing sum includes approximately $0.3 million set aside or accrued to provide pension, severance, retirement or similar benefits or expenses. As of December 31, 2021, options to purchase 134.6 ordinary shares, 70.5 restricted share units, or RSUs, and 24.4 Performance Share Units, or PSUs, granted to our directors and executive officers were outstanding under our share incentive plans, with a weighted average exercise price of $25.22 per share for the options. Certain of our officers receive a severance payment of up to four months' of their base salary upon termination of their employment.

The following table presents the grant dates, number of options and RSUs, and related exercise prices and expiration dates of options and RSUs granted to our directors and executive officers for the year ended December 31, 2021:

Grant Date	Number of Options	Number of RSUs	Exercise Price (per Share) of Options	Expiration Date of Options
February 18, 2021	-	13,379	-	-
May 05, 2021	-	7,728	-	-
August 12, 2021	5,005	18,116	122.19	December 8, 2024

Director Compensation

Under the Companies Law, the compensation of our directors (including reimbursement of expenses) requires the approval of our compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law, the approval of the shareholders at a general meeting as described in "C. Board Practices—Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions." Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply, as described below under "—Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of a Controlling Shareholder and Approval of Certain Transactions."

Our directors are entitled to cash compensation as follows:

All of our non-employee directors receive annual fees and per-meeting fees for their service on our board and its committees as follows:

- annual fees in an amount of $45,000, and $95,000 for the chairman;
- committee chair retainer - Audit: $20,000; Compensation: $15,000; any other committee – up to $15,000; and
- committee member retainer - Audit: $10,000; Compensation: $7,500; Any other committee: up to a maximum of $7,500.

In addition, commencing with our 2020 annual general meeting of shareholders, we provide for annual RSU grants to our non-employee directors. The number of RSUs granted to each director is linked to a fixed value— $115,000 to all non-employee directors. The actual number of RSUs to be granted each year with the foregoing $115,000 values is determined based on the closing price of our ordinary shares on the Nasdaq Global Select Market on the date of our annual shareholder meeting. Our RSU grant agreements for non-employee directors are subject to the following additional terms:

- the RSUs are granted to each non-employee director as of the date of the annual shareholder meeting and on the date of each annual general meeting thereafter;
- the RSUs vest in their entirety on the earlier of (x) the first anniversary of the grant or (y) the next annual general meeting of shareholders, provided the director continues to serve as a director of our company at such date;
- the RSUs, to the extent then unvested, become fully vested (a) immediately prior to the consummation of a Change of Control (as defined under our 2015 Plan (described below)) in which the director is required to resign from or is otherwise terminated from the service as a director, or (b) upon termination of service of such director occurring immediately after the consummation of a Change of Control; and
- the RSUs are otherwise subject to the terms of the 2015 Plan.

Executive Officer Compensation

The table below outlines the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2021, in the disclosure format of Regulation 21 of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. We refer to the five individuals for whom disclosure is provided herein as our “Covered Executives.”

For purposes of the table and the summary below, and in accordance with the above-mentioned securities regulations, “compensation” includes base salary, variable compensation, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation.

Summary Compensation Table

Information Regarding Covered Executives[(1)]

Name and Principal Position[(2)]	Base Salary ($)	Benefits and Perquisites ($)(3)	Variable compensation ($)(4)	Equity-Based Compensation ($)(5)	Total ($)
			(in thousands, US dollars)		
Ronen Samuel, Chief Executive Officer	412	59	533	1,286	2,290
Guy Avidan, former Global Business Line President	275	69	255	407	1,006
Charles (Chuck) Meyo, President KDAM	350	27	241	267	885
Amir Shaked-Mandel, EVP Corporate Development	237	89	164	377	867
Ilan Givon, EVP operation	229	79	155	360	823

(1) All amounts reported in the table are in terms of cost to us, as recorded in our financial statements.

(2) All current executive officers listed in the table were our full-time employees during 2021. Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for 2021.

(3) Amounts reported in this column include benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to the executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (e.g., life, disability, accident), convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.

(4) Amounts reported in this column refer to incentive and variable compensation payments which were paid or accrued with respect to 2021.

(5) Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2021 with respect to equity-based compensation. Assumptions and key variables used in the calculation of such amounts are described in paragraph (s) of Note 2 to our audited financial statements, which are included in “ITEM 18. Financial Statements” of this annual report.

2012 Share Incentive Plan

In October 2012, our board of directors adopted and our shareholders approved our 2012 Share Incentive Plan, or the 2012 Plan. The 2012 Plan replaced our 2004 Plan. We no longer grant options under the 2012 Plan because it was superseded by the 2015 Plan, although awards that were previously granted under the 2012 Plan remain outstanding. The 2012 Plan provides for the grant of options, restricted shares, restricted share units and other share-based awards to our and our subsidiaries’ and affiliates’ directors, employees, officers, consultants, advisors, and any other person whose services are considered valuable to us or our affiliates, to continue as service providers, to increase their efforts on our behalf or on behalf of our subsidiary or affiliate and to promote the success of our business. As of December 31, 2021, we had options to purchase 65,411 ordinary shares outstanding under the 2012 Plan.

The 2012 Plan is administered by our board of directors or by a committee designated by the board of directors, which determines, subject to Israeli law, the grantees of awards and the terms of the grant, including, exercise prices, vesting schedules, acceleration of vesting and the other matters necessary in the administration of the 2012 Plan. The 2012 Plan enables us to issue awards under various tax regimes, including, without limitation, pursuant to Section 102 of the Ordinance as discussed under “2004 Share Option Plan” above, and under Section 3(i) of the Ordinance and Section 422 of the United States Internal Revenue Code of 1986, as amended, or the Code.

The 2012 Plan provides that options granted to our employees, directors and officers who are not controlling shareholders and who are considered Israeli residents are intended to qualify for special tax treatment under the “capital gain track” provisions of Section 102(b) of the Ordinance. Our Israeli non-employee service providers and controlling shareholders may only be granted options under Section 3(i) of the Ordinance, which does not provide for similar tax benefits.

Options granted under the 2012 Plan to U.S. residents may qualify as “incentive stock options” within the meaning of Section 422 of the Code, or may be non-qualified. The exercise price for “incentive stock options” must not be less than the fair market value on the date on which an option is granted, or 110% of the fair market value if the option holder holds more than 10% of our share capital.

Options granted under the 2012 Plan generally vest over four years commencing on the date of grant, such that 50% vest on the second anniversary of the date of grant and an additional 25% vest at the end of each subsequent anniversary, provided that the participant remains continuously employed or engaged by us. In some cases, 25% vest on the first anniversary of the date of grant and an additional 6.25% vest at the end of each subsequent quarter, provided that the participant remains continuously employed by or engaged by us.

Options, other than certain incentive share options, that are not exercised within seven years from the grant date expire, unless otherwise determined by our board of directors or its designated committee, as applicable. Share options that qualify as “incentive stock options” and are granted to a person holding more than 10% of our voting power will expire within five years from the date of the grant. In the event of the death of a grantee while employed by or performing service for us or a subsidiary or within three months after the date of the employee’s termination, or the termination of a grantee’s employment or services for reasons of disability, the grantee, or in the case of death, his or her legal successor, may exercise options that have vested prior to termination within a period of one year from the date of disability or death. If a grantee’s employment or service is terminated by reason of retirement in accordance with applicable law, the grantee may exercise his or her vested options within the three-month period after the date of such retirement. If we terminate a grantee’s employment or service for cause, all of the grantee’s vested and unvested options will expire on the date of termination. If a grantee’s employment or service is terminated for any other reason, the grantee may generally exercise his or her vested options within 90 days of the date of termination. Any expired or unvested options return to the pool and become available for reissuance.

In the event of a merger or consolidation of our company, or a sale of all, or substantially all, of our shares or assets or other transaction having a similar effect on us, then without the consent of the option holder, our board of directors or its designated committee, as applicable, may but is not required to (i) cause any outstanding award to be assumed or an equivalent award to be substituted by such successor corporation, or (ii) in case the successor corporation does not assume or substitute the award (a) provide the grantee with the option to exercise the award as to all or part of the shares or (b) cancel the options and pay in cash an amount determined by the board of directors or the committee as fair in the circumstances. Notwithstanding the foregoing, our board of directors or its designated committee may upon such event amend, modify or terminate the terms of any award, including conferring the right to purchase any other security or asset that the board of directors or the committee shall deem, in good faith, appropriate.

2015 Incentive Compensation Plan

In March 2015, we adopted our 2015 Incentive Compensation Plan, or the 2015 Plan. The 2015 Plan provides for the grant of share options, share appreciation rights, restricted share awards, restricted share units, cash-based awards, other share-based awards and dividend equivalents to our company’s and our affiliates’ respective employees, non-employee directors and consultants. The reserved pool of shares under the 2015 Plan is the sum of (i) 661,745 shares; plus (ii) on January 1 of each calendar year during the term of the 2015 Plan, a number of shares equal to the least of: (x) 3% of the total number of shares outstanding on December 31 of the immediately preceding calendar year, (y) an amount determined by our board of directors, and (z) 1,965,930 shares. From and after the effective date of the 2015 Plan, no further grants or awards have been made under the 2012 Plan. Generally, shares that are forfeited, cancelled, terminated or expire unexercised, settled in cash in lieu of issuance of shares under the 2015 Plan or the 2012 Plan shall be available for issuance under new awards. Generally, any shares tendered or withheld to pay the exercise price, purchase price of an award, or any withholding taxes shall be available for issuance under new awards. Shares delivered pursuant to “substitute awards” (awards granted in assumption or substitution of awards granted by a company acquired by us) shall not reduce the shares available for issuance under the 2015 Plan.

As of December 31, 2021, we had options to purchase 347,764 ordinary shares, 641,352 unvested RSUs and 43,314 unvested PSUs outstanding under the 2015 Plan. After adding the increase to the 2015 Plan that was effective on January 1, 2022, we had 5,587,786 ordinary shares reserved for additional grants.

Subject to applicable law, the 2015 Plan is administered by our compensation committee, which has full authority in all matters related to the discharge of its responsibilities and the exercise of its authority under the plan. Awards under the 2015 Plan may be granted until 10 years after the effective date of the 2015 Plan.

The terms of options granted under the 2015 Plan, including the exercise price, vesting provisions and the duration of an option, are determined by the compensation committee and set forth in an award agreement. Except as provided in the applicable award agreement, or in the discretion of the compensation committee, an option may be exercised only to the extent that it is then exercisable and shall terminate immediately upon a termination of service of the grantee.

Share appreciation rights, or SARs, are awards entitling a grantee to receive a payment representing the difference between the base price per share of the right and the fair market value of a share on the date of exercise. SARs may be granted in tandem with an option or independent and unrelated to an option. The terms of SARs granted under the 2015 Plan, including the base price per share, vesting provisions and the duration of an SAR, shall be determined by the compensation committee and set forth in an award agreement. Except as provided in the applicable award agreement, or in the discretion of the compensation committee, an SAR may be exercised only to the extent that it is then exercisable and shall terminate immediately upon a termination of service of the grantee. At the discretion of the compensation committee, SARs will be payable in cash, ordinary shares or equivalent value or some combination thereof.

Restricted share awards are ordinary shares that are awarded to a grantee subject to the satisfaction of the terms and conditions established by the compensation committee in the award agreement. Until such time as the applicable restrictions lapse, restricted shares are subject to forfeiture and may not be sold, assigned, pledged or otherwise disposed of by the grantee who holds those shares.

RSUs are awards covering a number of hypothetical units with respect to shares that are granted subject to such vesting and transfer restrictions and conditions of payment as the compensation committee may determine in an award agreement. RSUs, once vested, may be settled for the grantee in cash, ordinary shares of equivalent value, or a combination thereof.

The 2015 Plan provides for the grant of cash-based award and other share-based awards (which are equity-based or equity related award not otherwise described in the 2015 Plan). The terms of such cash-based awards or other share-based shall be determined by the compensation committee and set forth in the award agreement.

The compensation committee may grant dividend equivalents based on the dividends declared on shares that are subject to any award. Dividend equivalents may be subject to any limitations and/or restrictions determined by the compensation committee and shall be converted to cash or additional shares by such formula and at such time, and shall be paid at such times, as may be determined by the compensation committee.

In the event of any dividend (excluding any ordinary dividend) or other distribution, recapitalization, share split, reverse share split, reorganization, merger, consolidation, split-up, split-off, combination, repurchase or exchange of shares or similar event (including a change in control) that affects the ordinary shares, the compensation committee shall make any such adjustments in such manner as it may deem equitable, including any or all of the following: (i) adjusting the number of shares available for grant under the 2015 Plan, (ii) adjusting the terms of outstanding awards, (iii) providing for a substitution or assumption of awards and (iv) cancelling awards in exchange for a payment in cash. In the event of a change of control, each outstanding award shall be treated as the compensation committee determines, including, without limitation, (i) that each award be honored or assumed, or equivalent rights substituted therefor, by the new employer or (ii) that all unvested awards will terminate upon the change in control. Notwithstanding the foregoing, in the event that it is determined that neither (i) or (ii) in the preceding sentence will apply, all awards will become fully vested.

2015 Israeli Sub Plan

The 2015 Israeli Sub Plan provides for the grant by us of awards pursuant to Sections 102 and 3(i) of the Ordinance, and the rules and regulations promulgated thereunder. The 2015 Israeli Sub Plan is effective with respect to awards granted as of 30 days from the date we submitted it to the ITA. The 2015 Israeli Sub Plan provides for awards to be granted to those of our or our affiliates' employees, directors and officers who are not Controlling Shareholders, as defined in the Ordinance, and who are considered Israeli residents, to the extent that such awards either are (i) intended to qualify for special tax treatment under the "capital gains track" provisions of Section 102(b) of the Ordinance or (ii) not intended to qualify for such special tax treatment. The 2015 Israeli Sub Plan also provides for the grant of awards under Section 3(i) of the Ordinance to our Israeli non-employee service providers and Controlling Shareholders, who are not eligible for such special tax treatment.

2015 U.S. Sub Plan

The 2015 U.S. Sub Plan applies to grantees that are subject to U.S. federal income tax. The 2015 U.S. Sub Plan provides that options granted to the U.S. grantees will either be incentive stock options pursuant to Section 422 of the Code, or nonqualified stock options. Options, other than certain incentive stock options described below, must have an exercise price not less than 100% of the fair market value of an underlying share on the date of grant. Incentive stock options that are not exercised within 10 years from the grant date expire, provided that incentive stock options granted to a person holding more than 10% of our voting power will expire within five years from the date of the grant and must have an exercise price at least equal to 110% of the fair market value of an underlying share on the date of grant. The number of shares available under the 2015 Plan for grants of incentive stock options shall be the total number of shares available under the 2015 Plan subject to any limitations under the Code and provided that shares delivered pursuant to "substitute awards" shall reduce the shares available for issuance of incentive stock options under the 2015 Plan. It is the intention that no award shall be deferred compensation subject to Section 409A of the Code unless and to the extent that the compensation committee specifically determines otherwise. If the compensation committee determines an award will be subject to Section 409A of the Code such awards shall be intended to comply in all respects with Section 409A of the Code, and the 2015 Plan and the terms and conditions of such awards shall be interpreted and administered accordingly.

Employee Share Purchase Plan

We have adopted an employee share purchase plan, or ESPP, pursuant to which our employees and employees of our subsidiaries may elect to have payroll deductions (or, when not allowed under local laws or regulations, another form of payment) made on each pay day during the offering period in an amount not exceeding 15% of the compensation which the employees receive on each pay day during the offering period. To date, we have not granted employees the right to make purchases under the plan. The number of shares initially reserved for purchase under the ESPP was 242,425 ordinary shares, which was to be automatically increased annually on January 1 by a number of ordinary shares equal to the least of (i) 1% of the total number of shares outstanding on December 31 of the immediately preceding calendar year, (ii) an amount determined by our board of directors, if so determined prior to January 1 of the year on which the increase will occur, and (iii) 655,310 shares.

The ESPP is to be administered by our board of directors or by a committee designated by the board of directors. Subject to those rights which are reserved to the board of directors or which require shareholder approval under Israeli law, our board of directors has designated the compensation committee to administer the ESPP. To the extent that we grant employees the right to make purchases under the ESPP, on the first day of each offering period, each participating employee will be granted an option to purchase on the exercise date of such offering period up to a number of our ordinary shares determined by dividing (1) the employee's payroll deductions accumulated prior to such exercise date and retained in the employee's account as of the exercise date by (2) the applicable purchase price. The applicable purchase price is to be based on a discount percentage of up to 15%, which percentage may be decreased by the board or the compensation committee, multiplied by the lesser of (1) the fair market value of an ordinary share on the exercise date, or (2) the fair market value of an ordinary share on the offering date.

C. Board Practices

Board of Directors

Under the Companies Law, the management of our business is vested in our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to management. Our executive officers are responsible for our day-to-day management and have individual responsibilities established by our board of directors. Our Chief Executive Officer is appointed by, and serves at the discretion of, our board of directors, subject to the employment agreement that we have entered into with him. All other executive officers are also appointed by our board of directors and are subject to the terms of any applicable employment agreements that we may enter into with them.

Under our articles, our board of directors must consist of at least five and not more than nine directors, including, to the extent applicable, at least two external directors who may be required to be appointed under the Companies Law. Our board of directors currently consists of nine directors. Our directors are divided into three classes with staggered three-year terms. Each class of directors consists, as nearly as possible, of one-third of the total number of directors constituting the entire board of directors (other than the external directors, to the extent applicable). At each annual general meeting of our shareholders, the election or re-election of directors following the expiration of the term of office of the directors of that class of directors is for a term of office that expires on the third annual general meeting following such election or re-election, such that at each annual general meeting the term of office of only one class of directors expires. Each director will hold office until the annual general meeting of our shareholders in which his or her term expires, unless they are removed by a vote of 65% of the total voting power of our shareholders at a general meeting of our shareholders or upon the occurrence of certain events, in accordance with the Companies Law and our articles.

In August 2019, we elected to be governed by an exemption under the Companies Law regulations that exempts us from appointing external directors and from complying with the Companies Law requirements related to the composition of the audit committee and compensation committee of our board of directors. Our eligibility for that exemption is conditioned upon: (i) the continued listing of our ordinary shares on the Nasdaq Stock Market (or one of a few select other non-Israeli stock exchanges); (ii) there not being a controlling shareholder (generally understood in this context to be a 25% or greater shareholder) of our company under the Companies Law; and (iii) our compliance with the Nasdaq Listing Rules requirements as to the composition of (a) our board of directors—which requires that we maintain a majority of independent directors (as defined under the Nasdaq Listing Rules) on our board of directors and (b) the audit and compensation committees of our board of directors (which require that such committees consist solely of independent directors (at least three and two members, respectively), as described under the Nasdaq Listing Rules). At the time that it determined to exempt our company from the external director requirement, our board affirmatively determined that we meet the conditions for exemption from the external director requirement, including that a majority of the members of our board, along with each of the members of the audit and compensation committees of the board, are independent under the Nasdaq Listing Rules.

As a result of our election to be exempt from the external director requirement under the Companies Law, each of our directors (including our two directors who formerly served as external directors) is now assigned to one of the three, staggered classes of our board of directors, as follows:

(i) the Class I directors are Alon Lumbroso, Dov Ofer and Yehoshua (Shuki) Nir, and their terms expire at our annual general meeting of shareholders to be held in 2022 and when their successors are elected and qualified;

(ii) the Class II directors are Ofer Ben-Zur, Gabi Seligsohn and Lauri Hanover and their terms expire at our annual general meeting of shareholders to be held in 2023 and when their successors are elected and qualified; and

(iii) the Class III directors are Yuval Cohen, Stephen Nigro and Ronen Samuel, and their terms expire at our annual general meeting of shareholders to be held in 2024 and when their successors are elected and qualified.

Our board of directors has determined that seven of our directors, consisting of Ofer Ben-Zur, Gabi Seligsohn, Lauri Hanover, Alon Lumbroso, Stephen Nigro, Yehoshua (Shuki) Nir and Dov Ofer, constituting a majority of the members of the board, are independent under the rules of the Nasdaq Stock Market. The definition of independent director under the Nasdaq Stock Market rules specifies criteria whose aim is to ensure that there is no factor that would impair the ability of the independent director to exercise independent judgment, and furthermore requires that the board of directors affirmatively determine that the independent director can exercise independent judgment.

Under the Companies Law and our articles, besides nominees who are chosen by our board of directors, nominees for director may also be proposed by any shareholder holding at least 1% of our outstanding voting power. However, any such shareholder may propose a nominee only if a written notice of such shareholder's intent to propose a nominee has been given to our Secretary (or, if we have no such Secretary, our Chief Executive Officer) within seven days following our publication of notice of an upcoming annual shareholder meeting (or within 14 days after we publish a preliminary notification of an upcoming annual shareholder meeting). Any such shareholder nomination must include certain information, including, among other things, a description of all arrangements between the nominating shareholder and the proposed director nominee(s) and any other person pursuant to which the nomination(s) are to be made by the nominating shareholder, the consent of the proposed director nominee(s) to serve as our director(s) if elected and a declaration signed by the nominee(s) declaring that there is no limitation under the Companies Law preventing their election, and that all of the information that is required under the Companies Law to be provided to us in connection with such election has been provided.

In addition, our articles allow our board of directors to appoint directors to fill vacancies on our board of directors for a term of office equal to the remaining period of the term of office of the director(s) whose office(s) have been vacated. External directors—when we are subject to, or choose to be bound by, the requirement to elect them—are elected for an initial term of three years and may be elected for additional three-year terms under the circumstances described below.

Under the Companies Law, our board of directors must determine the minimum number of directors who are required to have accounting and financial expertise. In determining the number of directors required to have such expertise, our board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that the minimum number of directors of our company who are required to have accounting and financial expertise is one.

External Directors

Under the Companies Law, the boards of directors of companies whose shares are publicly traded, including companies with shares traded in the United States, are generally required to include at least two members who qualify as external directors. In August 2019, we elected to be governed by the exemption from maintaining external directors on our board under the Companies Law (as described above).

Our election to exempt our company from compliance with the external director requirement can be reversed at any time by our board of directors, in which case we would need to hold a shareholder meeting to once again appoint external directors, whose election would be for a three-year term. The election of each external director would require approval by a majority vote of the shares present and voting at a meeting of shareholders, provided that either:

- such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and who lack a personal interest in the election of the external director (other than a personal interest not deriving from a relationship with a controlling shareholder) that are voted at the meeting, excluding abstentions, to which we refer as a disinterested majority; or

- the total number of shares voted by non-controlling, disinterested shareholders and by shareholders (as described in the previous bullet point) against the election of the external director does not exceed 2% of the aggregate voting rights in the company.

The term “controlling shareholder” as used in the Companies Law for purposes of all matters related to external directors and for certain other purposes (such as the requirements related to appointment to the audit committee or compensation committee, as described below), means a shareholder with the ability to direct the activities of the company, other than by virtue of being an office holder. A shareholder is presumed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in a company or has the right to appoint the majority of the directors of the company or its general manager (chief executive officer).

For further information concerning the Companies Law provisions related to external directors, please see “ITEM 6. Directors, Senior Management and Employees - C. Board Practices - Board of Directors - External Directors” in our annual report on Form 20-F for the year ended December 31, 2018, which we filed with the SEC on March 26, 2019.

Leadership Structure of the Board

In accordance with the Companies Law and our articles, our board of directors is required to appoint one of its members to serve as chairman of the board of directors. Our board of directors has appointed Yuval Cohen to serve as chairman of the board of directors.

Board Committees

Audit Committee

Our audit committee consists of three members: Lauri Hanover (Chairperson), Yehoshua (Shuki) Nir and Dov Ofer.

Companies Law Requirements

Under the Companies Law, we are required to appoint an audit committee. The audit committee must be comprised of at least three directors. To the extent a company is required to appoint external directors, this committee must include all of the external directors, one of whom must serve as chairman of the committee. There are additional requirements as to the composition of the audit committee under the Companies Law. However, when we elected to exempt our company from the external director requirement, we concurrently elected to exempt our company from all of such requirements (which exemption is conditioned on our fulfillment of all Nasdaq listing requirements related to the composition of the audit committee).

Nasdaq Listing Requirements

Under Nasdaq corporate governance rules, we are required to maintain an audit committee consisting of at least three independent directors, each of whom is financially literate and one of whom has accounting or related financial management expertise.

All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and Nasdaq corporate governance rules. Our board of directors has determined that Lauri Hanover qualifies as an audit committee financial expert, as defined by the SEC rules, and has the requisite financial experience, as defined by the Nasdaq corporate governance rules.

Each of the members of our audit committee is “independent” as such term is defined in Rule 10A-3(b)(1) under the Exchange Act and satisfies the independent director requirements under the Nasdaq Stock Market rules.

Audit Committee Role

Our board of directors has adopted an audit committee charter that sets forth the responsibilities of the audit committee consistent with the rules and regulations of the SEC and the listing requirements of the Nasdaq Stock Market, as well as the requirements for such committee under the Companies Law, including the following:

- oversight of our independent registered public accounting firm and recommending the engagement, compensation or termination of engagement of our independent registered public accounting firm to the board of directors in accordance with Israeli law;
- recommending the engagement or termination of the person filling the office of our internal auditor; and
- recommending the terms of audit and non-audit services provided by the independent registered public accounting firm for pre-approval by our board of directors.

Our audit committee provides assistance to our board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. Our audit committee also oversees the audit efforts of our independent accountants and takes those actions that it deems necessary to satisfy itself that the accountants are independent of management.

Under the Companies Law, our audit committee is responsible for:

- determining whether there are deficiencies in the business management practices of our company, including in consultation with our internal auditor or the independent auditor, and making recommendations to the board of directors to improve such practices;
- determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest and whether such transaction is material or extraordinary under the Companies Law) (see “—Approval of Related Party Transactions under Israeli Law”);
- establishing the approval process (including, potentially, the approval of the audit committee and conducting a competitive procedure supervised by the audit committee) for certain transactions with a controlling shareholder or in which a controlling shareholder has a personal interest;
- where the board of directors approves the working plan of the internal auditor, examining such working plan before its submission to the board of directors and proposing amendments thereto;
- examining our internal audit controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to fulfill his or her responsibilities;
- examining the scope of our auditor’s work and compensation and submitting a recommendation with respect thereto to our board of directors or shareholders, depending on which of them is considering the appointment of our auditor; and
- establishing procedures for the handling of employees’ complaints as to the management of our business and the protection to be provided to such employees.

As part of its capacity in overseeing risk management activities and monitoring management’s policies and procedures, our audit committee also plays a significant strategic role in coordinating our cyber risk initiatives and policies and confirming their efficacy.

Compensation Committee and Compensation Policy

Our compensation committee consists of three members: Yehoshua (Shuki) Nir (Chairman), Lauri Hanover and Dov Ofer.

Companies Law Requirements

Under the Companies Law, the board of directors of a public company must appoint a compensation committee. To the extent a company is required to appoint external directors, the compensation committee must be comprised of at least three directors, including all of the external directors, who must constitute a majority of the members of, and include the chairman of, the compensation committee. There are additional requirements as to the composition of the compensation committee under the Companies Law. However, when we elected to exempt our company from the external director requirement, we concurrently elected to exempt our company from all of such requirements (including the three-member minimum). Our exemption under the Companies Law is conditioned on our fulfillment of all Nasdaq listing requirements related to the composition of the compensation committee.

The duties of the compensation committee include the recommendation to the company's board of directors of a policy regarding the terms of engagement of office holders, to which we refer as a compensation policy. That policy must be adopted by the company's board of directors, after considering the recommendations of the compensation committee, and must be brought for approval by the company's shareholders, which approval requires what we refer to as a Special Approval for Compensation. A Special Approval for Compensation requires shareholder approval by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation arrangement; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation arrangement and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment, obligation of payment or other benefit in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must include certain principles, such as: a link between variable compensation and long-term performance and measurable criteria; the relationship between variable and fixed compensation; and the minimum holding or vesting period for variable, equity-based compensation.

The compensation committee is responsible for (a) recommending the compensation policy to a company's board of directors for its approval (and subsequent approval by its shareholders) and (b) duties related to the compensation policy and to the compensation of a company's office holders, as well as functions with respect to matters related to approval of the terms of engagement of office holders, including:

- recommending whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years);

- recommending to the board of directors periodic updates to the compensation policy and assessing implementation of the compensation policy;

- approving compensation terms of executive officers, directors and employees that require approval of the compensation committee;

- determining whether the compensation terms of a chief executive officer nominee, which were determined pursuant to the compensation policy, will be exempt from approval of the shareholders because such approval would harm the ability to engage with such nominee; and

- determining, subject to the approval of the board and under special circumstances, override a determination of the company's shareholders regarding certain compensation related issues.

Consistent with the foregoing requirements, following the recommendation of our compensation committee, our board and our shareholders approved our compensation policy in July 2020 and August 2020, respectively. Following that approval, the compensation policy (in updated form, if applicable) will need to be recommended by the compensation committee and presented for the approval of the board and shareholders, every three years, in accordance with the requirements of the Companies Law.

Nasdaq Listing Requirements

Under Nasdaq corporate governance rules, we are required to maintain a compensation committee consisting of at least two independent directors. Each of the members of the compensation committee is required to be independent under Nasdaq rules relating to compensation committee members, which are different from the general test for independence of board and committee members. Each of the members of our compensation committee satisfies those requirements.

Compensation Committee Role

Our board of directors has adopted a compensation committee charter that sets forth the responsibilities of the compensation committee, which include:

- the responsibilities set forth in the compensation committee charter;
- reviewing and approving the granting of options and other incentive awards to the extent such authority is delegated by our board of directors; and
- reviewing, evaluating and making recommendations regarding the compensation and benefits for our non-employee directors.

Compensation of Directors

Under the Companies Law, compensation of directors requires the approval of a company’s compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law, the approval of the shareholders at a general meeting. Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply, as described below under “Disclosure of Personal Interests of a Controlling Shareholder and Approval of Certain Transactions.”

For information regarding the current compensation package that is paid to our non-employee directors, see “B. Compensation—Director Compensation” in this ITEM 6. Our directors are also entitled to be paid reasonable travel, hotel and other expenses expended by them in attending board meetings and performing their functions as directors of the company, all of which is to be determined by the board of directors.

External directors (when we are required to have them serving on our board of directors) are entitled to remuneration subject to the provisions and limitations set forth in the regulations promulgated under the Companies Law.

Internal Auditor

Under the Companies Law, the board of directors of an Israeli public company must appoint an internal auditor recommended by the audit committee. An internal auditor may not be:

- a person (or a relative of a person) who holds 5% or more of the company's outstanding shares or voting rights;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of the company;
- an office holder (including a director) of the company (or a relative thereof); or
- a member of the company's independent auditor, or anyone on its behalf.

The role of the internal auditor is to examine, among other things, our compliance with applicable law and orderly business procedures. The audit committee is required to oversee the activities and to assess the performance of the internal auditor as well as to review the internal auditor's work plan. Irena Ben-Yakar of Brightman Almagor & Zohar (Deloitte) serves as our internal auditor.

Approval of Related Party Transactions Under Israeli Law

Fiduciary Duties of Directors and Executive Officers

The Companies Law codifies the fiduciary duties that office holders owe to a company. Each person listed in the table under "Directors and Senior Management" is an office holder of our company under the Companies Law.

An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of loyalty requires that an office holder act in good faith and in the best interests of the company.

The duty of care includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for his or her approval or performed by virtue of his or her position; and
- all other important information pertaining to any such action.

The duty of loyalty includes a duty to:

- refrain from any conflict of interest between the performance of his or her duties to the company and his or her other duties or personal affairs;
- refrain from any activity that is competitive with the business of the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or herself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions

The Companies Law requires that an office holder promptly disclose to the board of directors any conflict of interest (referred to under the Companies Law as a "personal interest") that he or she may be aware of and all related material information or documents concerning any existing or proposed transaction with the company. An interested office holder's disclosure must be made promptly and, in any event, no later than the first meeting of the board of directors at which the transaction is considered. A personal interest includes an interest of any person in an act or transaction of a company, including a personal interest of such person's relative or of a corporate body in which such person or a relative of such person is a 5% or greater shareholder, director or general manager (i.e., chief executive officer) or in which he or she has the right to appoint at least one director or the general manager, but excluding a personal interest stemming from one's ownership of shares in the company.

A personal interest furthermore includes the personal interest of a person for whom the office holder holds a voting proxy or the personal interest of the office holder with respect to his or her vote on behalf of a person for whom he or she holds a proxy even if such shareholder has no personal interest in the matter. An office holder is not, however, obliged to disclose a personal interest if it derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction. Under the Companies Law, an extraordinary transaction is defined as any of the following:

- a transaction other than in the ordinary course of business;
- a transaction that is not on market terms; or
- a transaction that may have a material impact on a company's profitability, assets or liabilities.

If it is determined that an office holder has a personal interest in a transaction which is not an extraordinary transaction, approval by the board of directors is required for the transaction, unless the company's articles of association provide for a different method of approval. Further, so long as an office holder has disclosed his or her personal interest in a transaction, the board of directors may approve an action by the office holder that would otherwise be deemed a breach of his or her duty of loyalty. However, a company may not approve a transaction or action that is not in the best interests of the company or that is not performed by the office holder in good faith. An extraordinary transaction in which an office holder has a personal interest requires approval first by the company's audit committee and subsequently by the board of directors. The compensation of, or an undertaking to indemnify or insure, an office holder who is not a director requires approval first by the company's compensation committee, then by the company's board of directors. If such compensation arrangement or an undertaking to indemnify or insure is inconsistent with the company's stated compensation policy, or if the office holder is the chief executive officer (apart from a number of specific exceptions), then such arrangement is further subject to a Special Approval for Compensation. Arrangements regarding the compensation, indemnification or insurance of a director require the approval of the compensation committee, board of directors and shareholders by ordinary majority, in that order, and under certain circumstances, a Special Approval for Compensation.

Generally, a person who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit or compensation committees may not be present at such a meeting or vote on that matter unless the chairman of the relevant committee or board of directors (as applicable) determines that he or she should be present in order to present the transaction that is subject to approval. If a majority of the members of the board committee or the board of directors (as applicable) has a personal interest in the approval of a transaction, then all directors may participate in discussions of the committee or the board of directors (as applicable) on such transaction and the voting on approval thereof, but shareholder approval is also required for such transaction.

Disclosure of Personal Interests of Controlling Shareholders and Approval of Certain Transactions

Pursuant to Israeli law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. The Companies Law provides a broader definition of a controlling shareholder solely with respect to the provisions pertaining to related party transactions. For such purposes, a controlling shareholder is a shareholder that has the ability to direct the activities of a company, including by holding 50% or more of the voting rights in a company or by having the right to appoint the majority of the directors of the company or its general manager (chief executive officer), and furthermore, by holding 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated. An extraordinary transaction between a public company and a controlling shareholder or in which a controlling shareholder has a personal interest and the terms of any compensation arrangement of a controlling shareholder who is an office holder or his relative, require the approval of a company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. In addition, the shareholder approval must fulfil one of the following requirements:

- at least a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting at the meeting approves the transaction, excluding abstentions; or

- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

To the extent that any such transaction with a controlling shareholder is for a period extending beyond three years, approval is required once every three years, unless, with respect to certain transactions, the audit committee determines that the duration of the transaction is reasonable given the circumstances related thereto.

Arrangements regarding the compensation, indemnification or insurance of a controlling shareholder in his or her capacity as an office holder require the approval of the compensation committee, board of directors and shareholders by a Special Majority, in that order, and the terms thereof may not be inconsistent with the company's stated compensation policy.

Pursuant to regulations promulgated under the Companies Law, certain transactions with a controlling shareholder or his or her relative, with directors, or with the chief executive officer, that would otherwise require approval of a company's shareholders may be exempt from shareholder approval upon certain determinations of the audit committee or compensation committee (as applicable), and the board of directors.

Shareholder Duties

Pursuant to the Companies Law, a shareholder has a duty to act in good faith and in a customary manner toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at a general meeting and at shareholder class meetings with respect to the following matters:

- an amendment to the company's articles of association;

- an increase of the company's authorized share capital;

- a merger; or

- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

In addition, certain shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that he or she has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or other power towards the company. The Companies Law does not define the substance of the duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness.

Exculpation, Insurance and Indemnification of Directors and Officers

Under the Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care but only if a provision authorizing such exculpation is included in its articles of association. Our articles include such a provision. A company may not exculpate in advance a director from liability arising out of a prohibited dividend or distribution to shareholders.

Under the Companies Law, a company may indemnify an office holder in respect of the following liabilities and expenses incurred for acts performed by him or her as an office holder, either pursuant to an undertaking made in advance of an event or following an event, provided its articles of association include a provision authorizing such indemnification:

- financial liability imposed on him or her in favor of another person pursuant to a judgment, including a settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned foreseen events and amount or criteria;

- reasonable litigation expenses, including attorneys' fees, incurred by the office holder (1) as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (i) no indictment was filed against such office holder as a result of such investigation or proceeding, and (ii) no financial liability was imposed upon him or her as a substitute for the criminal proceeding as a result of such investigation or proceeding or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; and (2) in connection with a monetary sanction; and

- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or imposed by a court in proceedings instituted against him or her by the company, on its behalf, or by a third party, or in connection with criminal proceedings in which the office holder was acquitted, or as a result of a conviction for an offense that does not require proof of criminal intent.

Under the Companies Law, a company may insure an office holder against the following liabilities incurred for acts performed by him or her as an office holder, if and to the extent provided in the company's articles of association:

- a breach of the duty of loyalty to the company, provided that the office holder acted in good faith and had a reasonable basis to believe that the act would not harm the company;

- a breach of duty of care to the company or to a third party, to the extent such a breach arises out of the negligent conduct of the office holder; and

- a financial liability imposed on the office holder in favor of a third party.

Under the Companies Law, a company may not indemnify, exculpate or insure an office holder against any of the following:

- a breach of the duty of loyalty, except for indemnification and insurance for a breach of the duty of loyalty to the company to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not harm the company;

- a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;

- an act or omission committed with intent to derive illegal personal benefit; or

- a fine or forfeit levied against the office holder.

Under the Companies Law, exculpation, indemnification and insurance of office holders in a public company must be approved by the compensation committee and the board of directors and, with respect to certain office holders or under certain circumstances, also by the shareholders. See "—Approval of Related Party Transactions under Israeli Law."

Our articles permit us to exculpate, indemnify and insure our office holders to the fullest extent permitted or to be permitted by the Companies Law.

We have obtained directors and officers liability insurance for the benefit of our office holders and intend to continue to maintain such coverage and pay all premiums thereunder to the fullest extent permitted by the Companies Law. In addition, we entered into agreements with each of our directors and executive officers exculpating them from liability to us for damages caused to us as a result of a breach of duty of care and undertaking to indemnify them, in each case, to the fullest extent permitted by our articles and the Companies Law, including with respect to liabilities resulting from a public offering of our shares, to the extent that these liabilities are not covered by insurance.

D. Employees

As of December 31, 2021, we had 882 employees and subcontractors, with 499 located in Israel, 172 in the United States, 161in Europe and 50 in Asia Pacific. The following table shows the breakdown of our workforce of employees and subcontractors by category of activity as of the dates indicated:

	As of December 31,		
Area of Activity	**2019**	**2020**	**2021**
Service	101	132	165
Sales and marketing	131	166	225
Manufacturing and operations	103	107	126
Research and development	128	164	223
General and administrative	84	103	143
Total	547	672	882

With respect to our Israeli employees, Israeli labor laws govern the length of the workday and workweek, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days, advance notice of termination of employment, payments to the National Insurance Institute, equal opportunity and anti-discrimination laws and other conditions of employment. While none of our employees is party to any collective bargaining agreements, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Associations) are applicable to our employees in Israel by order of the Israeli Ministry of the Economy and Industry. These provisions primarily concern pension fund benefits for all employees, insurance for work-related accidents, recuperation pay and travel expenses. We generally provide our employees with benefits and working conditions beyond the required minimums. With respect to our German employees, German and European labor laws govern the common employment terms including worktime, annual leave and employment termination. In addition to that our Kornit Digital Europe GmbH have a work council. Work council must be consulted about specific employee related issues and has the right to make proposals to management according to the German Works Constitution Act (BetrVG).

We have never experienced any labor-related work stoppages or strikes and believe our relationships with our employees are good.

E. Share Ownership

For information regarding the share ownership of our directors and executive officers, please refer to "ITEM 6.B. Compensation" and "ITEM 7.A. Major Shareholders."

ITEM 7. <u>Major Shareholders and Related Party Transactions</u>.

A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of February 28, 2022 by:

- each person or entity known by us to own beneficially 5% or more of our outstanding ordinary shares;
- each of our directors and executive officers individually; and
- all of our executive officers and directors as a group.

The beneficial ownership of our ordinary shares is determined in accordance with the rules of the SEC and generally includes any ordinary shares over which a person exercises sole or shared voting or investment power, or the right to receive the economic benefit of ownership. For purposes of the table below, we deem ordinary shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 28, 2022 to be outstanding and to be beneficially owned by the person holding the options for the purposes of computing the percentage ownership of that person, but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. Except where otherwise indicated, we believe, based on information furnished to us by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held by brokers or other nominees.

Unless otherwise noted below, each shareholder's address is c/o Kornit Digital Ltd., 12 Ha'Amal Street, Rosh –Ha'Ayin 4809246, Israel.

A description of any material relationship that our principal shareholders have had with us or any of our predecessors or affiliates within the past three years is included under "Certain Relationships and Related Party Transactions."

The percentages set forth below are based on 49,684,554 ordinary shares outstanding as of February 28, 2022.

Except where otherwise indicated, we believe, based on information furnished to us by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. All of our shareholders, including the shareholders listed below, have the same voting rights attached to their ordinary shares. See "ITEM 10.B Articles of Association."

A description of any material relationship that our major shareholders have had with us or any of our predecessors or affiliates within the past year is included under "ITEM 7.B—Related Party Transactions.

Name	**Number of Shares Beneficially Held**	**Percent**
5% or Greater Shareholders		
Wasatch Advisors Inc.(1)	3,419,521	6.9%
Directors and Executive Officers		
Yuval Cohen	*	*
Ofer Ben-Zur	*	*
Lauri Hanover	*	*
Alon Lumbroso	*	*
Stephen Nigro	*	*
Yehushua (Shuki) Nir	*	*
Dov Ofer	*	*
Gabi Seligsohn	*	*
Ronen Samuel	103,392	*
Alon Rozner		
Jecka Glasman	*	*
Omer Kulka	*	*
Kobi Mann	*	*
All Directors and Executive Officers as a Group (13 persons)	*(2)	*

* Represents beneficial ownership of less than 1% of our outstanding ordinary shares.

(1) As of December 31, 2021, based on an amendment to Schedule 13G filed by Wasatch Advisors Inc. with the SEC on February 11, 2022.

(2) Consists of ordinary shares, options to purchase ordinary shares and RSUs that may be exercised or settled (as applicable) within 60 days of February 28, 2022.

Recent Significant Changes in the Percentage Ownership of Major Shareholders

In February 2020, each of Granahan Investment Management, Inc. (a former major shareholder) and Clal Insurance Enterprises Holdings Ltd., or Clal (another former major shareholder) reported changes in its beneficial ownership as of the end of 2019, to 3.0% and 5.6%, respectively, of our outstanding ordinary shares. Consequently, Granahan Investment Management, Inc. ceased to be a 5% shareholder as of the end of 2019. In addition, Wasatch Advisors Inc. reported that it held in excess of 5% of our outstanding shares as of the end of 2019, holding 8.7% as of that time.

In February 2021, each of Wasatch Advisors Inc. and Clal reported changes in its beneficial ownership as of the end of 2020, such that its beneficial ownership had changed to 9.8% and 5.1%, respectively, as of that time. In February 2022, each of Wasatch Advisors Inc. and Clal again reported changes in its beneficial ownership as of the end of 2021, such that its beneficial ownership had changed to 6.9% and 3.2%, respectively, as of that time.

The beneficial ownership of our ordinary shares by American Capital Management Inc. (a former major shareholder) went from 6.2% as of the end of 2019 to 5.7% as of the end of 2020. As of the end of 2021, its beneficial ownership dropped below 5% (to 4.1%).

Other than the foregoing, there have been no recent significant changes in the percentage ownership of major shareholders.

Record Holders

Based upon a review of the information provided to us by our transfer agent, as of March 7, 2022, there were two holders of record of our ordinary shares, of which one record holder, holding approximately 99.93% of our outstanding ordinary shares, had a registered address in the United States. These numbers are not representative of the number of beneficial holders of our shares, nor is it representative of where such beneficial holders reside, since all of these shares held of record in the United States were held through CEDE & Co., the nominee company of the Depository Trust Company, on behalf of hundreds of firms of brokers and banks in the United States, who in turn held such shares on behalf of several thousand clients and customers.

B. Related Party Transactions

Our policy is to enter into transactions with related parties on terms that, on the whole, are no more favorable, or no less favorable than those available from unaffiliated third parties. Based on our experience in the business sectors in which we operate and the terms of our transactions with unaffiliated third parties, we believe that all of the transactions described below met this policy standard at the time they occurred. The following is a description of material transactions, or series of related material transactions, since January 1, 2021, to which we were or will be a party and in which the other parties included or will include our directors, executive officers, holders of more than 10% of our voting securities or any member of the immediate family of any of the foregoing persons.

Agreements and Arrangements with, and Compensation of, Directors and Executive Officers

Employment Agreements

We have entered into written employment agreements with each of our executive officers. These agreements provide for notice periods of varying duration for termination of the agreement by us or by the relevant executive officer, during which time the executive officer will continue to receive base salary and benefits (except for the accrual of vacation days). These agreements also contain customary provisions regarding non-competition, confidentiality of information and assignment of inventions. However, the enforceability of the non-competition provisions may be limited under applicable law.

Options, RSUs and PSUs

Since our inception we have granted options to purchase our ordinary shares to our officers and certain of our directors, and, commencing in 2018 (following approval by our shareholders), we began awarding annual RSU grants to our non-employee directors. Our option agreements may contain, and the terms of our RSU grants do contain, acceleration provisions upon certain merger, acquisition, or change of control transactions (in the case of the RSU grants, upon termination of, or resignation by, a non-employee director in connection with any such transaction or immediately thereafter). Our equity grant agreements for our officers also provide, in certain cases, for acceleration of vesting in the event of certain merger, acquisition, or change of control transactions. In 2021, we granted performance based RSUs, or PSUs, to our chief executive officer (as described below under "Compensation Arrangement for CEO"). We describe our equity incentive plans under "ITEM 6.B. Compensation". If the relationship between us and an executive officer or a director is terminated, except for cause (as defined in the option plans), all options that are vested will generally remain exercisable for ninety days after such termination.

Indemnification Agreements

Our articles permit us to exculpate, indemnify and insure each of our directors and office holders to the fullest extent permitted by Israeli law. We have entered into indemnification agreements with each of our directors and executive officers, undertaking to indemnify them to the fullest extent permitted by Israeli law, including with respect to liabilities resulting from a public offering of our shares, to the extent that these liabilities are not covered by insurance. We have also obtained Directors and Officers insurance for each of our executive officers and directors. For further information, see "ITEM 6.C Board Practices—Exculpation, Insurance and Indemnification of Directors and Officers."

Compensation Arrangement for CEO

At our 2020 annual general meeting of shareholders, held in August 2020, our shareholders approved (following approval by our compensation committee and board of directors) a compensation package for our chief executive officer (the "**CEO**"), Ronen Samuel. We have provided below the current, updated compensation figures for the CEO, as adjusted since that approval by our shareholders:

Base Salary: NIS 1.33 million (approximately $412,000)
Target Annual Bonus (% Base Salary): 100%
Target Total Cash (Base + Bonus): $750,000
Long-Term Incentive/ Equity: $1,300,000 annually
Target Total Direct Compensation: $2,050,000

The compensation package includes the following specific elements:

(i) ***Total Shareholder Return (TSR) PSUs***: PSUs valued at approximately $650,000 are granted to the CEO annually.

- The actual number of TSR PSUs to be granted each year with the foregoing $650,000 value are determined based on a valuation methodology generally used for such awards (e.g., Monte Carlo method) as of the date of the relevant annual shareholder meeting or as of the relevant anniversary of the date of the meeting.

- The vesting of the TSR PSUs is dependent upon the performance of our TSR, as measured by our Company's share price, relative to the performance of the S&P 500 index, which determination is made for a three year period of time, upon the three-year anniversary of each grant date, at which time the TSR PSUs either partially or fully vest (if the performance condition is met at or above the threshold level) or expire (if the performance condition is not met);

- There is "double trigger" vesting and acceleration of vesting due to termination of the CEO in certain circumstances.

- The actual payout on the TSR PSUs (i.e., how many vest), will be determined based on our performance relative to a payout curve, with threshold and maximum performance levels, whereby the payout can be anywhere from zero to in excess of the payout target, as follows:

Kornit TSR Percentile Rank	Payout (% of Target)*
< 35th Percentile	0%
35th Percentile	50% (Threshold)
55th Percentile	**100% (Target)**
75th Percentile	150% (Maximum)
> 75th Percentile	150%

* subject to linear interpolation

(ii) ***RSUs***: RSUs valued at approximately $325,000 are granted to the CEO annually.

- The actual number of RSUs to be granted each year with the foregoing $325,000 value is determined based on the volume-weighted average price ("VWAP") of the ordinary shares over (a) the 30-day period preceding the shareholders' meeting (for 2020) or (b) the 30-day period preceding each subsequent August 12 (for each subsequent year).

- The RSUs vest over the course of a four-year period, with 25% of the RSUs vesting upon the first anniversary of the grant date and an additional 6.25% of the RSUs vesting upon the conclusion of each of the next 12 quarters, subject to the CEO's continuous employment as CEO over those four years.

- There is "double trigger" vesting and acceleration of vesting due to termination of the CEO in certain circumstances.

(iii) ***Options***: Options valued at approximately $325,000 (the number of options to be based on the binomial option pricing model applied on the date of the annual shareholder meeting or on the relevant anniversary of the date of the meeting, as applicable) are granted to the CEO annually.

- the options have an exercise price equal to the closing sales price per share of our ordinary shares on the Nasdaq Global Select Market on the date of the meeting or on the anniversary of the date of the meeting (as applicable);

- subject to Mr. Samuel's continued employment as our CEO, the options vest over the course of a four-year period commencing on the grant date, with 25% of the options vesting upon the first anniversary of the grant date and an additional 6.25% of the options vesting upon the conclusion of each of the next 12 quarters, subject to the CEO's continuous employment as CEO over those four years;

- There is "double trigger" vesting and acceleration of vesting due to termination of the CEO in certain circumstances.

"Clawback" Condition

The compensation terms for our CEO are subject, in the case of annual bonus and long-term incentive/equity compensation, to a potential repayment obligation to our Company/ cancellation (as applicable), under certain circumstances, as described in our compensation policy.

Hedging/Pledging Restrictions

To ensure that the equity portion of our CEO's compensation package serves solely to motivate our CEO to create value for our shareholders, our CEO is prohibited from creating "short" positions or engaging in other hedging activity with respect to our ordinary shares.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. Financial Information.

A. Statements and Other Financial Information

We have appended our financial statements at the end of this annual report, starting at page F-1, as part of this annual report.

Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. Currently, and in the recent past, other than as described below, we are not and have not been a party to any legal proceedings, nor are there any legal proceedings (including governmental proceedings) pending or, to our knowledge, threatened against us, that our management believes, individually or in the aggregate, would have a significant effect on our financial position or profitability. We intend to defend against any claims to which we may become subject, and to proceed with any claims that we may need to assert against third parties, in a vigorous fashion.

Dividend Distribution Policy

We have never declared or paid any cash dividends on our ordinary shares. We do not anticipate paying any dividends in the foreseeable future. We currently intend (subject to any extraordinary market conditions that might arise) to retain future earnings, if any, to finance operations and expand our business. To the extent that volatile or depressed market conditions (whether in the wake of the coronavirus outbreak or otherwise) reduce the trading price of our ordinary shares substantially for an extended period of time, we may potentially consider using a portion of our cash reserves toward share repurchases. Our board of directors has sole discretion whether to pay dividends (or to effect share repurchases). If our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our directors may deem relevant. See "ITEM 3.D. Risk Factors— Risks Related to Our Ordinary Shares— We have never paid cash dividends on our share capital, and we do not anticipate paying any cash dividends in the foreseeable future" and, in Exhibit 2.2 to this annual report, "Description of Kornit Digital Ltd. Ordinary Shares— Dividend and Liquidation Rights" for an explanation concerning the payment of dividends under Israeli law.

B. Significant Changes

Since the date of our financial statements included in ITEM 18 of this annual report, there has not been a significant change in our company other than as described elsewhere in this annual report.

ITEM 9. <u>The Offer and Listing</u>.

A. Listing details

Our ordinary shares have been quoted on the Nasdaq Global Select Market under the symbol “KRNT” since April 2, 2015. Prior to that date, there was no public trading market for our ordinary shares. Our IPO was priced at $10.00 per share on April 2, 2015.

On March 22, 2022, the closing sales price of our ordinary shares on the Nasdaq Global Select Market was $85.06.

B. Plan of Distribution

Not applicable.

C. Markets

See “—Listing Details” above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. <u>ADDITIONAL INFORMATION</u>

A. Share Capital

Not applicable.

B. Articles of Association

The information called for by this Item 10.B of Form 20-F has been provided in Exhibit 2.2 to this annual report. The content of Exhibit 2.2 is incorporated by reference herein.

C. Material Contracts

We are not party to any material contract within the two years prior to the date of this annual report, other than contracts entered into in the ordinary course of business, or as otherwise described below in this ITEM 10.C.

Agreements with Amazon

Master Purchase Agreement

On January 10, 2017, we entered into a master purchase agreement, or the Purchase Agreement, with Amazon Corporate LLC, a subsidiary of Amazon.com, Inc., or Amazon. Under the Purchase Agreement, as amended in March 2017, January 2018, and June 2018, Amazon may purchase, and we have committed to supply, AVHD6 digital direct-to-garment printers and NeoPigment ink and other consumables at agreed-upon prices which are subject to volume. We also agreed to provide maintenance services and extended warranties to Amazon at agreed-upon prices.

The Purchase Agreement provides for an "end of life" program. We are required to notify Amazon 12 months in advance if it intends to stop supporting one of the products or services supplied by us and to continue to manufacture the product or provide such service during the applicable period. Subject to certain exceptions, we are required to continue to supply ink in such quantities as Amazon requires for at least 36 months after the earlier of (1) the end of the term of the Purchase Agreement or (2) 18 months following the purchase of the last product sold pursuant to the Purchase Agreement. The Purchase Agreement requires us to make arrangements to ensure continuity of our supply of products if we do not comply with its requirements to supply the products or the services under the agreement or becomes insolvent. The Purchase Agreement also provides for penalties on a sliding scale in the case of late delivery or if our systems are unavailable for certain specific periods. There are no minimum spending commitments under the Purchase Agreement. The term of the Purchase Agreement was five years beginning on May 1, 2016 and extends automatically for additional one-year periods unless terminated by Amazon. The Purchase Agreement is subject to customary termination provisions, including material uncured breaches, insolvency or our acquisition by a competitor of Amazon. The Purchase Agreement may also be terminated by Amazon without cause subject to an agreed advance notice period.

Original Transaction Agreement and Original Warrant

Concurrently with our execution of the Purchase Agreement, we and Amazon also entered into a transaction agreement, or the Original Transaction Agreement, pursuant to which we issued to an affiliate of Amazon a warrant, or the Original Warrant, to acquire up to 2,932,176 of our ordinary shares, or the Original Warrant Shares, at a purchase price of $13.04 per share, which is based on the preceding 30 trading day VWAP prior to the execution of the Original Transaction Agreement. The Original Warrant also provided for cashless exercise.

The Original Warrant Shares underlying the Original Warrant were subject to vesting as a function of payments for purchased products and services of up to $150 million over a five-year period, with the shares vesting incrementally each time Amazon or its affiliates made a payment totaling $5 million to us. Amazon exercised the Original Warrant on a cashless (net) exercise basis in connection with our September 2020 and November 2021 public offerings, resulting in the issuance to it, and the sale by it, of 1,689,942 and 705,953 Original Warrant Shares in those respective offerings. As of December 31, 2021, no shares remained issuable under the Original Warrant.

The Original Transaction Agreement included customary representations, warranties and covenants of our company and Amazon. The Original Transaction Agreement restricted any transfer of the Original Warrant except to a wholly owned subsidiary of Amazon and contained certain restrictions on Amazon's ability to transfer the Original Warrant Shares, including to a beneficial owner of more than 5% of our outstanding ordinary shares, subject to customary exceptions. The Original Transaction Agreement also contained certain customary standstill restrictions with respect to an acquisition of our shares (other than an acquisition of the Original Warrant Shares), solicitation of proxies and other actions that seek to influence the control of our company. These standstill restrictions remained in effect until such time as the Original Warrant Shares held by Amazon or that remained unexercised under the Original Warrant represented less than 2% of our outstanding shares.

Under the Original Transaction Agreement, Amazon was entitled to certain registration rights with respect to Original Warrant Shares, which rights now apply to the New Warrant Shares (as described under "New Transaction Agreement and New Warrant" below). Amazon is entitled to request up to two times in any 12-month period that we file a shelf registration statement on Form F-3 or S-3, and we are required to keep the shelf registration effective for four 90-day periods. If we are ineligible to file a registration statement on Form F-3 or Form S-3, Amazon could request up to four times that we file a long form registration statement to facilitate the sale of its shares. In addition, at any time after the one year anniversary of the Original Transaction Agreement, Amazon is entitled to piggyback registration rights on underwritten offerings effected by us. We are subject to customary obligations upon Amazon's request for registration, including cooperation in case of an underwritten offering.

As a result of Amazon's exercise of its registration rights under the Original Transaction Agreement and its complete, cashless exercise of the Original Warrant and sale of all underlying Original Warrant Shares as part of our underwritten follow-on offerings in September 2020 and November 2021, Amazon has realized all of its rights, and we have no further material obligations to Amazon, under the Original Warrant. Please see "Underwriting Agreement for November 2021 Primary/Secondary Follow-On Offering" and "Underwriting Agreement for September 2020 Primary/Secondary Follow-On Offering" below for more information.

New Transaction Agreement and New Warrant

On September 14, 2020, we and Amazon entered into a new transaction agreement, or the New Transaction Agreement, pursuant to which we issued to an affiliate of Amazon a warrant, or the New Warrant, to acquire up to 3,401,028 of our ordinary shares, or the New Warrant Shares, at a purchase price of $59.26 per share, which is based on the 30-trading day VWAP prior to the execution of the New Transaction Agreement. The New Warrant also provides for cashless (net) exercise.

The New Warrant Shares underlying the New Warrant are subject to vesting as a function of payments of up to an aggregate of $400 million by Amazon and its affiliates over a five-year period for two different categories of product lines and services as follows:

	Existing Product Lines and Services	**New Product Lines and Services**
Purchased Amount	$ 250 million	$ 150 million
Maximum Number of Vesting Shares	1,943,445	1,457,583
Number of Vesting Shares per $5 Million Payment	38,869	48,587

"Existing" products refers to any product line that has been purchased by Amazon from Kornit before the date of the issuance of the New Warrant, for example, products from the Kornit Avalanche and the Kornit Atlas printing system family and related ink and spare parts. "New" products refer to any product line that has not been purchased by Amazon before the date of the issuance of the New Warrant and may be purchased by Amazon in the future. "New" products include any future potential new applications that are printed using existing products. Neither the New Warrant nor the Purchase Agreement, as amended, contain any pricing terms or minimum purchase agreements for "New" products, and no "New" product has been qualified for use by Amazon.

The New Warrant is exercisable through the earlier of (1) January 10, 2027 and (2) the fifth anniversary of the date that all shares underlying under the Original Warrant are vested (i.e., the date on which Amazon and its affiliates have collectively made gross payments totaling $150 million to the Company or its affiliates in connection with invoices in respect of orders placed under the Purchase Agreement).

Upon the consummation of a change of control transaction (as defined in the New Warrant), subject to certain exceptions, the unvested portion of the New Warrant will vest in full and become fully exercisable.

The exercise price and the number of New Warrant Shares issuable upon exercise of the New Warrant are subject to customary anti-dilution adjustments.

The New Warrant also limits Amazon's beneficial ownership to 4.999% of our outstanding shares unless Amazon waives this limit upon 61 days' notice, in which case Amazon's beneficial ownership is then limited to 9.999% of our outstanding shares.

The New Transaction Agreement includes customary representations, warranties and covenants of our company and Amazon. The New Transaction Agreement restricts any transfer of the New Warrant and New Warrant Shares issuable thereunder, except under certain circumstances set forth in the New Transaction Agreement.

Under the New Transaction Agreement, the registration rights that applied under the Original Transaction Agreement to Original Warrant Shares are deemed to apply to the New Warrant Shares as well.

The New Transaction Agreement also contains certain customary standstill restrictions with respect to an acquisition of our shares (other than an acquisition of the shares underlying the Original Warrant and the New Warrant), solicitation of proxies and other actions that seek to influence the control of our company. These standstill restrictions remain in effect until such time as the New Warrant Shares issued under the New Warrant or that remain unexercised under the New Warrant represent less than 2% of our outstanding shares.

As of December 31, 2021, 660,773 New Warrant Shares had vested and were issuable under the New Warrant.

Other Material Contracts

Material Contract	Location of Description in This Annual Report
Agreements and arrangements with, and compensation of, directors and executive officers	"ITEM 7.B. Related Party Transactions—Agreements and arrangements with, and compensation of, directors and executive officers."
Kornit Digital Compensation Policy	"ITEM 6.C. Board Practices-Board Committees-Compensation Committee and Compensation Policy."
OEM Supply Agreement, dated December 3, 2015, between us and FujiFilm Dimatix, Inc.	"ITEM 3.D. Risk Factors— Risks Related to Our Business and Our Industry— Risk factor titled "If our relationships with suppliers..."
Manufacturing Services Agreement, dated as of May 2015, between us and Flex	"ITEM 3.D. Risk Factors— Risks Related to Our Business and Our Industry— Risk factor titled "If our relationships with suppliers..."
Manufacturing Services Agreement, dated as of February 26, 2019, between us and Sanmina-SCI Israel Medical Systems Ltd.	"ITEM 3.D. Risk Factors— Risks Related to Our Business and Our Industry— Risk factor titled "If our relationships with suppliers..."
Office and Parking Space Lease Agreement, dated as of December 17, 2007 between us and Industrial Building Corporation, as amended	"ITEM 4.D. Property, Plant and Equipment."
Lease Agreement dated as of March 25, 2010 between us and Benbenisti Engineering Ltd., as amended	"ITEM 4.D. Property, Plant and Equipment."
Lease dated December 2017 between Bonanno Real Estate Group I, L.P. and Kornit Digital North America, Inc.	"ITEM 4.D. Property, Plant and Equipment."
Development Contract, dated November 26, 2018, by and between us and the Israel Lands Authority- TBD whether this will turn into a lease agreement before filing.	"ITEM 3.D. Risk Factors—Risks Related to Our Business and Our Industry — Our new Kiryat Gat facility…".

D. Exchange Controls

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding some transactions. However, legislation remains in effect under which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our articles or by the laws of the State of Israel.

E. Taxation

Israeli Tax Considerations

The following is a brief summary of the material Israeli tax consequences concerning the ownership and disposition of our ordinary shares by our shareholders. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Because parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders.

Israeli capital gains tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company, or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the seller’s country of residence provides otherwise. Capital gain is generally subject to tax at the corporate tax rate (23% in 2018 and thereafter), if generated by a company, or at the rate of 25% if generated by an individual, or 30% in the case of sale of shares by a Substantial Shareholder (i.e., a person who holds, directly or indirectly, alone or together with such person’s relative or another person who collaborates with such person on a permanent basis, 10% or more of any of the company’s “means of control” (including, among other things, the right to receive profits of the company, voting rights, the right to receive proceeds upon liquidation and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 47% for an individual in 2021) unless the benefiting provisions of an applicable treaty applies.

Notwithstanding the foregoing, a non-Israeli resident (individual or corporation) who derives capital gains from the sale of shares in an Israeli resident company that were purchased after the company was listed for trading on a recognized stock exchange in Israel or outside of Israel will generally be exempt from Israeli tax so long as the shares were not held through a permanent establishment that the non-resident maintains in Israel (and with respect to shares listed on a recognized stock exchange outside of Israel, so long as neither the shareholder nor the particular capital gain is otherwise subject to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985). However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have a controlling interest of more than 25% in such non-Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. These provisions dealing with capital gain are not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

Additionally, a sale of shares by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the United States-Israel Tax Treaty, the sale, exchange or other disposition of shares of an Israeli company by a shareholder who (i) is a U.S. resident (for purposes of the treaty), (ii) holds the shares as a capital asset, and (iii) is entitled to claim the benefits afforded to such person by the treaty, is generally exempt from Israeli capital gains tax. Such exemption will not apply if: (i) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (ii) the capital gain arising from such sale, exchange or disposition is attributed to royalties; (iii) the capital gain arising from the sale, exchange or disposition that can be attributed to a permanent establishment of the shareholder that is maintained in Israel under certain terms; (iv) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting rights during any part of the 12-month period preceding such sale exchange or other disposition, subject to certain conditions; or (v) such U.S. resident is an individual and was present in Israel for a period or periods aggregating to 183 days or more during the relevant taxable year. In any such case, the sale, exchange or disposition of our ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, a U.S. resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, such as a merger or other transaction, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by that authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non-Israeli residents, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

Taxation of Non-Israeli Shareholders on Receipt of Dividends.

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25% or 30% (if the recipient is a Substantial Shareholder at the time of receiving the dividend or at any time during the preceding 12 months) or 15% if the dividend is distributed from income attributed to a Benefited Enterprise and 20% with respect to a Preferred Enterprise, subject to certain conditions. Such dividends are generally subject to Israeli withholding tax at a rate of 25% so long as the shares are registered with a nominee company (whether the recipient is a Substantial Shareholder or not) and 15% if the dividend is distributed from income attributed to a Benefited Enterprise or 20% if the dividend is distributed from income attributed to an Preferred Enterprise, or such reduced rate as may be provided under an applicable tax treaty (subject to the receipt of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate, or such lower tax rate as may be provided in an applicable tax treaty).

For example, under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the United States-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax for dividends not generated by a Benefited Enterprise and paid to a U.S. corporation holding 10% or more of the outstanding voting rights from the start of the tax year preceding the distribution of the dividend through (and including) the distribution of the dividend, is 12.5%, provided that not more than 25% of the gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, a distribution of dividends to non-Israeli residents is subject to withholding tax at source at a rate of 15% if the dividend is distributed from income attributed to a Benefited Enterprise for such U.S. corporation shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.

If the dividend is attributable partly to income derived from a Benefited Enterprise or a Preferred Enterprise, and partly from other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed, and (iii) the taxpayer is not obligated to pay excess tax (as further explained below).

Estate and Gift Tax.

Israeli law presently does not impose estate or gift taxes.

Excess Tax.

Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 647,640 for 2021, which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

U.S. Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences to U.S. Holders (as defined below) of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax consequences to purchasers of our ordinary shares and that will hold such ordinary shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including, without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt entities;
- certain former citizens or long-term residents of the United States;
- persons that received our ordinary shares as compensation for the performance of services;
- persons that will hold our ordinary shares as part of a “hedging,” “integrated” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes;
- partnerships (including entities classified as partnerships for U.S. federal income tax purposes) or other pass-through entities, or holders that will hold our ordinary shares through such an entity;
- U.S. Holders (as defined below) whose “functional currency” is not the U.S. dollar; or
- holders that own directly, indirectly or through attribution 10.0% or more of the voting power or value of our ordinary shares.

Moreover, this description does not address the United States federal estate, gift, alternative minimum tax or net investment income tax consequences, or any state, local or non-U.S. tax consequences, of the acquisition, ownership and disposition of our ordinary shares.

This description is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. Each of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below. There can be no assurances that the U.S. Internal Revenue Service will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained.

For purposes of this description, a "U.S. Holder" is a beneficial owner of our ordinary shares that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds ordinary shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

You should consult your tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of our ordinary shares.

Distributions

Subject to the discussion below under "— Passive Foreign Investment Company Considerations," if you are a U.S. Holder, the gross amount of any distribution that we pay you with respect to our ordinary shares before reduction for any non-U.S. taxes withheld therefrom generally will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent that the amount of any cash distribution exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax free return of your adjusted tax basis in our ordinary shares and thereafter as capital gain. We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles. Therefore, if you are a U.S. Holder, you should expect that the entire amount of any cash distribution generally will be reported as dividend income to you; provided, however, that distributions of ordinary shares to U.S. Holders that are part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax. Non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on ordinary shares applicable to long term capital gains (i.e., gains from the sale of capital assets held for more than one year), provided that certain conditions are met, including certain holding period requirements and the absence of certain risk reduction transactions. Moreover, such reduced rate shall not apply if we are a PFIC for the taxable year in which it pays a dividend or were a PFIC for the preceding taxable year. Dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders.

If you are a U.S. Holder, subject to the discussion below, dividends that we pay you with respect to our ordinary shares will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, non-U.S. tax withheld on dividends may be deducted from your taxable income or credited against your U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally should constitute "passive category income," or, in the case of certain U.S. Holders, "general category income." A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

Although, as discussed above, dividends that we pay to a U.S. Holder will generally be treated as foreign source income, for periods in which we are a "United States-owned foreign corporation," a portion of dividends paid by us may be treated as U.S. source income solely for purposes of the foreign tax credit. We would be treated as a United States-owned foreign corporation if 50% or more of the total value or total voting power of our stock is owned, directly, indirectly or by attribution, by United States persons. To the extent any portion of our dividends is treated as U.S. source income pursuant to this rule, the ability of a U.S. Holder to claim a foreign tax credit for any Israeli withholding taxes payable in respect of our dividends may be limited. A U.S. Holder entitled to benefits under the United States-Israel Tax Treaty may, however, elect to treat any dividends as foreign source income for foreign tax credit purposes if the dividend income is separated from other income items for purposes of calculating the U.S. Holder's foreign tax credit. U.S. Holders should consult their own tax advisors about the impact of, and any exception available to, the special sourcing rule described in this paragraph, and the desirability of making, and the method of making, such an election.

The amount of any dividend income paid in NIS will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you should not be required to recognize exchange gain or loss in respect of the dividend income. You may have exchange gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Exchange gain or loss will be treated as U.S.-source ordinary income or loss.

Sale, Exchange or Other Disposition of Ordinary Shares

Subject to the discussion above under "— Passive Foreign Investment Company Considerations," if you are a U.S. Holder, you generally will recognize an amount of gain or loss on the sale, exchange or other disposition of our ordinary shares equal to the difference between the amount realized on such sale, exchange or other disposition and your tax basis in our ordinary shares, and such gain or loss will be capital gain or loss. The tax basis in an ordinary share generally will equal the U.S. dollar cost of such ordinary share. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of ordinary shares generally will be eligible for a preferential rate of taxation applicable to capital gains, if your holding period for such ordinary shares exceeds one year. The deductibility of capital losses for U.S. federal income tax purposes is subject to limitations under the Code. Any such gain or loss that a U.S. Holder recognizes generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

If an Israeli tax is imposed on the sale or other disposition of our ordinary shares, your amount realized will include the gross amount of the proceeds of the sale or other disposition before deduction of the Israeli tax. Because your gain from the sale or other disposition of our ordinary shares will generally be U.S.-source gain, and you may use foreign tax credits to offset only the portion of U.S. federal income tax liability that is attributable to foreign source income, you may be unable to claim a foreign tax credit with respect to the Israeli tax, if any, on gains. You should consult your tax adviser as to whether the Israeli tax on gains may be creditable against your U.S. federal income tax on foreign-source income from other sources.

Passive Foreign Investment Company Considerations

If we were to be classified as a "passive foreign investment company," or PFIC, in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of U.S. federal income tax that a U.S. Holder could derive from investing in a non-U.S. company that does not distribute all of its earnings on a current basis.

A non-U.S. corporation will be classified as a PFIC for federal income tax purposes in any taxable year in which, after applying certain look through rules, either

- at least 75% of its gross income is "passive income"; or;

- at least 50% of the average quarterly value of its gross assets (which may be determined in part by the market value of our ordinary shares, which is subject to change) is attributable to assets that produce "passive income" or are held for the production of passive income;

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of our ordinary shares. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation's income. If we are classified as a PFIC in any year with respect to which a U.S. Holder owns our ordinary shares, our ordinary shares generally will continue to be treated as shares in a PFIC with respect to such U.S. Holder in all succeeding years during which the U.S. Holder owns our ordinary shares, regardless of whether we continue to meet the tests described above.

Based on certain estimates of our gross income and gross assets and the nature of our business, we believe that we were not classified as a PFIC for the taxable year ended December 31, 2021, and furthermore do not expect to be classified for the taxable year ending December 31, 2022. Because PFIC status must be determined annually based on tests which are factual in nature, our PFIC status in future years will depend on our income, assets and activities in those years. In addition, because the market price of our ordinary shares is likely to fluctuate and because that market price may affect the determination of whether we will be considered a PFIC, there can be no assurance that we will not be considered a PFIC for any taxable year and we do not intend to make a determination of our or any of our future subsidiaries' PFIC status in the future. A U.S. Holder may be able to mitigate some of the adverse U.S. federal income tax consequences described below with respect to owning our ordinary shares if we are classified as a PFIC for our taxable year ending December 31, 2021, provided that such U.S. Holder is eligible to make, and successfully makes, either a "mark-to-market" election or a qualified electing fund election described below for the taxable year in which its holding period begins.

If we were a PFIC, and you are a U.S. Holder, then unless you make one of the elections described below, a special tax regime, which we refer to as the Excess Distribution Regime, will apply to both (a) any "excess distribution" by us to you (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or your holding period for our ordinary shares) and (b) any gain realized on the sale or other disposition of our ordinary shares. Under the Excess Distribution Regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over your holding period, (b) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder's regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. Certain elections may be available that would result in an alternative treatment of our ordinary shares. If we are determined to be a PFIC, the Excess Distribution Regime described in this paragraph would also apply to indirect distributions and gains deemed to be realized by U.S. Holders in respect of any future subsidiary of ours that also may be determined to be PFICs.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares, then in lieu of being subject to the tax and interest charge rules discussed above, a U.S. Holder may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such ordinary shares are "regularly traded" on a "qualified exchange." In general, our ordinary shares will be treated as "regularly traded" for a given calendar year if more than a de minimis quantity of our ordinary shares are traded on a qualified exchange on at least 15 days during each calendar quarter of such calendar year. Although the IRS has not published any authority identifying specific exchanges that may constitute "qualified exchanges," Treasury Regulations provide that a qualified exchange is (a) a United States securities exchange that is registered with the SEC, (b) the United States market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a non-U.S. securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such non-U.S. exchange has trading volume, listing, financial disclosure, surveillance and other requirements designed to prevent fraudulent and manipulative acts and practices, to remove impediments to and perfect the mechanism of a free and open, fair and orderly, market, and to protect investors; and the laws of the country in which such non-U.S. exchange is located and the rules of such non-U.S. exchange ensure that such requirements are actually enforced and (ii) the rules of such non-U.S. exchange effectively promote active trading of listed stocks. Our ordinary shares are listed on the Nasdaq Global Select Market, which is a United States securities exchange that is registered with the SEC. However, no assurance can be given that our ordinary shares meet the requirements to be treated as "regularly traded" for purposes of the mark-to-market election. In addition, because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the Excess Distribution Regime with respect to such holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes, including stock in any future subsidiary of ours that is treated as a PFIC.

If a U.S. Holder makes an effective mark-to-market election, such U.S. Holder will include in each year that we are a PFIC as ordinary income the excess of the fair market value of such U.S. Holder's ordinary shares at the end of the year over such U.S. Holder's adjusted tax basis in our ordinary shares. Such U.S. Holder will be entitled to deduct as an ordinary loss in each such year the excess of such U.S. Holder's adjusted tax basis in our ordinary shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder will not mark-to-market gain or loss for any taxable year in which we are not classified as a PFIC. If a U.S. Holder makes an effective mark-to-market election, in each year that we are a PFIC, any gain such U.S. Holder recognizes upon the sale or other disposition of such U.S. Holder's ordinary shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

A U.S. Holder's adjusted tax basis in our ordinary shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless our ordinary shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisers about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

Where a company that is a PFIC meets certain reporting requirements, a U.S. Holder can avoid certain adverse PFIC consequences described above by making a "qualified electing fund," or QEF, election to be taxed currently on its proportionate share of the PFIC's ordinary income and net capital gains. Generally, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year in which it held our ordinary shares. If a timely QEF election is made, an electing U.S. Holder of our ordinary shares will be required to include in its ordinary income such U.S. Holder's pro rata share of our ordinary earnings and to include in its long-term capital gain income such U.S. Holder's pro rata share of our net capital gain, whether or not distributed. Under Section 1293 of the Code, a U.S. Holder's pro rata share of our ordinary income and net capital gain is the amount which would have been distributed with respect to such U.S. Holder's ordinary shares if, on each day during our taxable year, we had distributed to each holder of our ordinary shares a pro rata share of that day's ratable share of our ordinary earnings and net capital gain for such year. In certain cases in which a QEF does not distribute all of its earnings in a taxable year, its U.S. Holders may also be permitted to elect to defer payment of some or all of the taxes on the QEF's undistributed income but will then be subject to an interest charge on the deferred amount.

We intend to provide, upon request, all information that a U.S. Holder making a QEF election is required to obtain for U.S. federal income tax purposes (e.g., the U.S. Holder's pro rata share of ordinary income and net capital gain), and intend to provide, upon request, a "PFIC Annual Information Statement" as described in Treasury Regulation section 1.1295-1 (or in any successor IRS release or Treasury regulation), including all representations and statements required by such statement. U.S. Holders should consult their tax advisors to determine whether any of these elections would be available and if so, what the consequences of the alternative treatments would be in their particular circumstances.

If a U.S. Holder owns our ordinary shares during any year in which we are a PFIC, the U.S. Holder generally will be required to file an IRS Form 8621 with respect to us, generally with the U.S. Holder's federal income tax return for that year.

U.S. Holders should consult their tax advisors regarding whether we are a PFIC and the potential application of the PFIC rules.

Disposition of Foreign Currency

Foreign currency received as dividends on our ordinary shares or on the sale or retirement of an ordinary share will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Tax on Net Investment Income

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from the tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include its dividends on our ordinary shares and net gains from dispositions of our ordinary shares, unless those dividends or gains are derived in the ordinary course of the conduct of trade or business (other than trade or business that consists of certain passive or trading activities). Net investment income, however, may be reduced by deductions properly allocable to that income. A U.S. Holder that is an individual, estate or trust is urged to consult its tax adviser regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the ordinary shares.

Backup Withholding Tax and Information Reporting Requirements

U.S. backup withholding tax and information reporting requirements may apply to certain payments to certain holders of our ordinary shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our ordinary shares made within the United States, or by a U.S. payor or U.S. middleman, to a holder of our ordinary shares, other than an exempt recipient (including a payee that is not a U.S. person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, ordinary shares within the United States, or by a U.S. payor or U.S. middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a credit against the beneficial owner's U.S. federal income tax liability, if any, and any excess amounts withheld under the backup withholding rules may be refunded, provided that the required information is timely furnished to the IRS.

Foreign Asset Reporting

Certain U.S. Holders, who are individuals, are required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for shares held in accounts maintained by financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display

We are currently subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligations of these requirements by filing reports with the SEC. As a foreign private issuer, we are exempt from the rules under the Exchange Act relating to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to file with the SEC, within 120 days after the end of each subsequent fiscal year, an annual report on Form 20-F containing financial statements which will be examined and reported on, with an opinion expressed, by an independent public accounting firm. We also intend to furnish to the SEC reports on Form 6-K containing quarterly unaudited financial information for the first three quarters of each fiscal year.

You may read and copy any document we file with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at http://www.sec.gov. As permitted under Nasdaq Listing Rule 5250(d)(1)(C), we will post our annual reports filed with the SEC on our website at http://www.kornit.com. We will furnish hard copies of such reports to our shareholders upon request free of charge. The information contained on our website is not part of this or any other report filed with or furnished to the SEC.

I. Subsidiary Information

Not applicable.

ITEM 11. Quantitative and Qualitative Disclosures About Market Risks.

We are exposed to a variety of financial risks, including market risk (including foreign exchange risk and price risk), credit and interest risks and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

Foreign Currency Exchange Risk

Due to our international operations, currency exchange rates impact our financial performance. In 2021, approximately 83% of our revenues were denominated in U.S. dollars, 11% of our revenues were denominated in Euros and 5% of our revenues were denominated in Great Britain Pounds. Conversely, in 2021, approximately 44% of our purchases of raw materials and components of our systems and ink and other consumables are denominated in either NIS or in NIS prices that are linked to U.S. dollars. Similarly, a majority of our operating costs, which are largely comprised of labor costs, are denominated in NIS, due to our operations in Israel. Accordingly, our results of operations may be materially affected by fluctuations in the value of the U.S. dollar relative to the NIS and the Euro.

The following table presents information about the changes in the exchange rates of the NIS and the Euro against the U.S. dollar:

	Change in Average Exchange Rate	
Period	**U.S. Dollar against the NIS (%)**	**U.S. Dollar against the Euro (%)**
2019	(0.8)	5.4
2020	(3.4)	(1.7)
2021	(6.2)	(3.7)

The figures above represent the change in the average exchange rate in the given year compared to the average exchange rate in the immediately preceding year. Negative figures represent depreciation of the U.S. dollar compared to the NIS or Euro (as applicable) and positive figures represent appreciation of the U.S. dollar compared to the NIS or Euro (as applicable). We estimate that a 10% increase or 10% decrease in the value of the NIS against the U.S. dollar would have decreased or increased our net income by approximately $(10 million) or $12 million in 2020, and $(5 million) or $6 million in 2021, respectively. We estimate that a 10% increase or 10% decrease in the value of the Euro against the U.S. dollar would have increased or decreased our net income by approximately $0.4 million or $(0.5 million) in 2020, and $(1.6 million) or $1.2 million in 2021, respectively. These estimates of the impact of fluctuations in currency exchange rates on our historic results of operations may be different from the impact of fluctuations in exchange rates on our future results of operations since the mix of currencies comprising our revenues and expenses may change.

For purposes of our consolidated financial statements, local currency assets and liabilities are translated at the rate of exchange to the U.S. dollar on the balance sheet date and local currency revenues and expenses are translated at the exchange rate at the date of the transaction or the average exchange rate dollar during the reporting period to the United States.

To protect against an increase in the dollar-denominated value of expenses paid in NIS during the year, we have instituted a foreign currency cash flow hedging program, which seeks to hedge a portion of the economic exposure associated with our anticipated NIS-denominated expenses using derivative instruments. We intend to manage risks by using instruments such as foreign currency forward and swap contracts and other methods.

During 2020 and 2021, we entered into forward and option contracts to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in NIS.

We expect that the substantial majority of our revenues will continue to be denominated in U.S. dollars for the foreseeable future and that a significant portion of our expenses will continue to be denominated in NIS. We will continue to monitor exposure to currency fluctuations. However, we cannot provide any assurances that our hedging activities will be successful in protecting us in full from adverse impacts from currency exchange rate fluctuations. In addition, since we only plan to hedge a portion of our foreign currency exposure, our results of operations may be adversely affected due to the impact of currency fluctuations on the unhedged aspects of our operations.

Interest Rate Risk

Our investment strategy is to achieve a return that will allow us to preserve capital and maintain liquidity requirements. We invest primarily in debt securities, specifically corporate debt securities. By policy, we limit the amount of credit exposure to any one issuer. As of December 31, 2020 and December 31, 2021, we did not have any material (realized) losses on our marketable debt securities. As of December 31, 2021, unrealized losses on our marketable debt securities were partially due to temporary interest rate fluctuations as a result of higher market interest rates compared to interest rates at the time of purchase. We account for both fixed and variable rate securities at fair value with changes on gains and losses recorded in Other Comprehensive Income until the securities are sold.

Other Market Risks

We do not believe that we have any material exposure to inflationary risks.

ITEM 12. Description of Securities Other than Equity Securities.

Not applicable.

PART II

ITEM 13. Defaults, Dividend Arrearages and Delinquencies.

None.

ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

A-D. Not applicable

E. Use of Proceeds

Initial Public Offering

There has been no change in the information regarding the use of proceeds from our IPO since the last annual report on Form 20-F that we filed in March 2021. Our operations generate positive cash flow, and, as such, we did not use any further proceeds from our IPO during the year ended December 31, 2021.

ITEM 15. Controls and Procedures.

(a) Disclosure Controls and Procedures

Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of December 31, 2021. Based on their evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2021, our disclosure controls and procedures were effective such that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management annual report on internal control over financial reporting

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of internal control over financial reporting as of December 31, 2021 based on the criteria established in "Internal Control-Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2021.

(c) Attestation report of the independent registered public accounting firm

The attestation report of Kost Forer Gabbay & Kasierer, a member of EY Global, an independent registered public accounting firm in Israel, on our management's assessment of our internal control over financial reporting as of December 31, 2021 is provided on page F-3, as included under Item 18 of this annual report.

(d) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [Reserved]

ITEM 16A. Audit Committee Financial Expert.

Our board of directors has determined that Lauri Hanover, who serves on the audit committee of our board of directors and who meets the "independent director" definition under the Nasdaq Listing Rules, qualifies as an "audit committee financial expert," as defined under the rules and regulations of the SEC.

ITEM 16B. Code of Ethics.

We have adopted a code of ethics and business conduct applicable to our executive officers, directors and all other employees. A copy of the code, as most recently updated in August 2020, is delivered to every employee of our company and is available to investors and others on our website at http://ir.kornit.com/ or by contacting our investor relations department. Under Item 16B of Form 20-F, if a waiver or amendment of the code of ethics and business conduct applies to our principal executive officer, principal financial officer, principal accounting officer, controller or other persons performing similar functions and relates to standards promoting any of the values described in Item 16B(b) of Form 20-F, we will disclose such waiver or amendment (i) on our website within five business days following the date of amendment or waiver in accordance with the requirements of Instruction 4 to such Item 16B or (ii) through the filing of a Report of Foreign Private Issuer on Form 6-K. We did not provide such a waiver or adopt such an amendment during the fiscal year ended December 31, 2021.

ITEM 16C. Principal Accountant Fees and Services.

Fees billed or expected to be billed by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, and other members of Ernst & Young Global for professional services for each of the last two fiscal years were as follows:

	Year Ended December 31, 2020		Year Ended December 31, 2021	
	(in thousands of dollars)			
	Amount	Percentage	Amount	Percentage
Audit fees	$ 565	63%	$ 720	84%
Audit-Related Fees	21	2%	-	0%
Tax Fees	285	32%	76	9%
All Other Fees	25	3%	60	7%
Total	$ 896	100%	$ 856	100%

"Audit fees" are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC.

"Audit-related fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under audit fees. These fees primarily include accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

"Tax fees" include fees for professional services rendered by our independent registered public accounting firm for tax compliance and tax advice on actual or contemplated transactions.

"Other fees" include fees for services rendered by our independent registered public accounting firm with respect to government incentives and other matters.

Audit Committee's Pre-approval Policies and Procedures

Our audit committee follows pre-approval policies and procedures for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to those policies and procedures, which are designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants.

ITEM 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Not applicable.

ITEM 16F. Change in Registrant's Certifying Accountant.

Not applicable.

ITEM 16G. Corporate Governance.

The Nasdaq Global Select Market requires companies with securities listed thereon to comply with its corporate governance standards. As a foreign private issuer, we are not required to comply with all of the rules that apply to listed domestic U.S. companies. Pursuant to Nasdaq Listing Rule 5615(a)(3), we have notified Nasdaq that with respect to the corporate governance practices described below, we instead follow Israeli law and practice and accordingly will not follow the Nasdaq Listing Rules. Except for the differences described below, we do not believe there are any significant differences between our corporate governance practices and those that apply to a U.S. domestic issuer under the Nasdaq corporate governance rules. However, we may in the future decide to use the foreign private issuer exemption with respect to some or all of the other Nasdaq corporate governance rules, in which case we will update our disclosure in this Item 16G of Form 20-F.

- Quorum requirement for shareholder meetings: As permitted under the Companies Law, pursuant to our articles, the quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person, by proxy or by other voting instrument, who hold at least 25% of the voting power of our shares (and in an adjourned meeting, with some exceptions, two shareholders, regardless of the voting power associated with their shares), instead of 33 $^{1}/_{3}$% of the issued share capital, as required under the Nasdaq Listing Rules.

- Nomination of directors. With the exception of external directors (if applicable to us at the time) and directors elected by our board of directors due to vacancy, our directors are elected, in a staggered manner, by an annual meeting of our shareholders to hold office until the third annual meeting following their election. The nominations for directors, which are presented to our shareholders by our board of directors, are generally made by the board of directors itself, in accordance with the provisions of our articles of association and the Companies Law. Nominations need not be made by a nominating committee of our board of directors consisting solely of independent directors or otherwise, as required under the Nasdaq Listing Rules.

ITEM 16H. Mine Safety Disclosure.

Not applicable.

ITEM 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

ITEM 17. Financial Statements.

Not applicable.

ITEM 18. Financial Statements.

See pages F-1 through F-48 appended hereto.

ITEM 19. Exhibits.

Exhibit No.	Description
1.1	Amended and Restated Articles of Association of Kornit Digital Ltd.(1)
2.1	Specimen ordinary share certificate of Kornit Digital Ltd.(2)
2.2	Description of ordinary shares of Kornit Digital Ltd.#
4.1	Form of Indemnification Agreement(3)
4.2	2012 Share Incentive Plan(4)
4.3	2015 Incentive Compensation Plan(5)
4.4	Kornit Digital Ltd. Compensation Policy(6)
4.5	English summary of the Office and Parking Space Lease Agreement dated as of December 17, 2007, by and between the Registrant and Industrial Building Corporation Ltd. as amended by Addendum, dated 2007, Addendum to Lease Agreement, dated 2007, Addendum to Lease Agreement, dated March 8, 2012, Addendum to Lease Agreement, dated 2012, Addendum to Lease Agreement, dated December 19, 2012, Addendum to Lease Agreement, dated May 20, 2013, Addendum to Lease Agreement, dated January 12, 2014, Addendum to Lease Agreement, dated January 12, 2014, Addendum to Lease Agreement, dated December 27, 2015, Addendum to Lease Agreement, dated December 28, 2015, Addendum to the Lease Agreement dated October 17, 2017, Addendum dated February 21, 2018, Addendum to the Lease Agreement, dated April 23, 2018, Addendum to the Lease Agreement dated December 26, 2018, Addendum to the Lease Agreement, dated January 3, 2019, Addendum to the Lease Agreement dated September 16, 2019, Addendum to the Lease Agreement, dated November 28, 2019, Addendum to the Lease Agreement dated February 9, 2020, Addendum to the Lease Agreement, dated June 28, 2020, Addendum to the Lease Agreement, dated April 13, 2021, Addendum to the Lease Agreement, dated April 13, 2021, Addendum to the Lease Agreement, dated June 21, 2021, Addendum to the Lease Agreement, dated July 27, 2021, Addendum to the Lease Agreement, dated October 10, 2021, Addendum to the Lease Agreement, dated November 14, 2021, Addendum to the Lease Agreement, dated December 28, 2021, Addendum to the Lease Agreement, dated December 28, 2021 and Addendum to the Lease Agreement, [not signed yet]. (7)
4.6	English summary of the Lease Agreement, dated March 25, 2010, by and between the Registrant and Benvenisti Engineering Ltd. as amended by Addendum to Lease Agreement, dated November 21, 2011, Addendum to Lease Agreement, dated September 16, 2014, Addendum to the Lease Agreement dated March 16, 2015, an Addendum to the Lease Agreement dated August 31, 2017, an Addendum to the Lease Agreement dated June 24, 2018 an Addendum to the Lease Agreement dated January 11, 2021, an Addendum to Lease Agreement dated March 10, 2021 and an Addendum to Lease Agreement dated September 13, 2021 (8)
4.7	OEM Supply Agreement, dated December 3, 2015, among the Registrant and FujiFilm Dimatix, Inc.†(9)
4.8	Manufacturing Services Agreement, dated May 2015, by and between the Registrant and Flex (formerly known as Flextronics (Israel) Ltd.)†(10)
4.9.1	Master Purchase Agreement, dated January 10, 2017, between the Registrant and Amazon Corporate LLC†(11)
4.9.2	Amendment 1 to Master Purchase Agreement, effective March 1, 2017, between the Registrant and Amazon Corporate LLC*(12)
4.9.3	Amendment 2 to Master Purchase Agreement, effective January 1, 2018, between the Registrant and Amazon Corporate LLC*(13)
4.9.4	Amendment 3 to Master Purchase Agreement, effective June 29, 2018, between the Registrant and Amazon Corporate LLC*(14)
4.9.5	Amendment 4 to Master Purchase Agreement, effective January 1, 2020, between the Registrant and Amazon.com Services LLC* (15)
4.9.6	Amendment 5 to Master Purchase Agreement, effective September 1, 2020, between the Registrant and Amazon.com Services LLC*(16)

4.9.7	Amendment 6 to Master Purchase Agreement, effective February 15, 2021, between the Registrant and Amazon.com Services LLC*(17)
4.10	Transaction Agreement, dated January 10, 2017, between the Registrant and Amazon.com, Inc.(18)
4.11	Warrant to Purchase Ordinary Shares, dated January 10, 2017, issued to Amazon.com NV Investment Holdings LLC(19)
4.12	Transaction Agreement, dated September 14, 2020, between the Registrant and Amazon.com, Inc.(20)
4.13	Warrant to Purchase Ordinary Shares, dated September 14, 2020, issued to Amazon.com NV Investment Holdings LLC(21)
4.14	Lease, dated December 2017, between Kornit Digital North America, Inc. and Bonanno Real Estate Group I, L.P. (22)
4.15	English translation of Development Contract, dated November 26, 2018, by and between the Registrant and the Israel Lands Authority(23)
4.16	Manufacturing Services Agreement, dated as of February 26, 2019, by and between the Registrant and Sanmina-SCI Israel Medical Systems Ltd.(24)*
8.1	List of subsidiaries of the Registrant #
12.1	Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002 #
12.2	Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002 #
13.1	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, furnished herewith #
15.1	Consent of Kost Forer Gabbay & Kasierer, a member firm of Ernst & Young Global, an independent registered public accounting firm #
101	The following financial information from Kornit Digital Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2021 formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2020 and 2021; (ii) Consolidated Statements of Operations for the years ended December 31, 2019, 2020 and 2021; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019, 2020 and 2021; (iv) Statements of Shareholders' Equity for the years ended December 31, 2019, 2020 and 2021; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2020 and 2021; (v) Notes to Consolidated Financial Statements, tagged as blocks of text; and (vi) Cover Page Interactive Data File.
104	Inline Cover Page Interactive Data File (included in Exhibit 101).

(1) Previously furnished to the SEC on August 12, 2021 as Exhibit 99.1 to the Registrant's Report of Foreign Private Issuer on Form 6-K and incorporated by reference herein.

(2) Previously filed with the SEC on March 10, 2015 as Exhibit 4.1 to Amendment No. 1 to the Registrant's registration statement on Form F-1 (SEC File No. 333-202291) and incorporated by reference herein.
(3) Previously filed with the SEC on March 10, 2015 as Exhibit 10.3 to Amendment No. 1 to the Registrant's registration statement on Form F-1 (SEC File No. 333-202291) and incorporated by reference herein.
(4) Previously filed with the SEC on February 25, 2015 as Exhibit 10.2 to the Registrant's registration statement on Form F-1 (SEC File No. 333-202291) and incorporated by reference herein.
(5) Previously filed with the SEC on March 18, 2015 as Exhibit 10.21 to Amendment No. 3 to the Registrant's registration statement on Form F-1 (SEC File No. 333-202291) and incorporated by reference herein.
(6) Previously furnished to the SEC on July 2, 2020 as Appendix A to the Registrant's proxy statement for its 2020 annual general meeting of shareholders, attached as Exhibit 99.2 to the Registrant's Report of Foreign Private Issuer on Form 6-K and incorporated by reference herein.
(7) Previously filed with the SEC on March 25, 2021 as Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2020 and incorporated by reference herein.
(8) Previously filed with the SEC on March 25, 2021 as Exhibit 4.6 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2020 and incorporated by reference herein.
(9) Previously filed with the SEC on April 14, 2016 as Exhibit 4.9 to Amendment No. 1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated by reference herein.
(10) Previously filed with the SEC on March 30, 2017 as Exhibit 4.11 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
(11) Previously filed with the SEC on March 30, 2017 as Exhibit 4.13 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
(12) Previously filed with the SEC on March 23, 2020 as Exhibit 4.10.2 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2019 and incorporated by reference herein.
(13) Previously filed with the SEC on March 23, 2020 as Exhibit 4.10.3 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2019 and incorporated by reference herein.
(14) Previously filed with the SEC on March 23, 2020 as Exhibit 4.10.4 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2019 and incorporated by reference herein.
(15) Previously filed with the SEC on September 14, 2020 as Exhibit 10.2 to the Registrant's Report of Foreign Private Issuer on Form 6-K and incorporated by reference herein.
(16) Previously filed with the SEC on March 25, 2021 as Exhibit 4.10.6 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2020 and incorporated by reference herein.
(17) Previously filed with the SEC on March 25, 2021 as Exhibit 4.10.7 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2020 and incorporated by reference herein.
(18) Previously filed with the SEC on March 30, 2017 as Exhibit 4.14 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
(19) Previously filed with the SEC on March 30, 2017 as Exhibit 4.15 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
(20) Previously furnished to the SEC on September 14, 2020 as Exhibit 10.1 to the Registrant's Report of Foreign Private Issuer on Form 6-K and incorporated by reference herein.
(21) Previously furnished to the SEC on September 14, 2020 as Exhibit 4.1 to the Registrant's Report of Foreign Private Issuer on Form 6-K and incorporated by reference herein.
(22) Previously filed with the SEC on March 20, 2018 as Exhibit 4.16 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2017 and incorporated by reference herein.
(23) Previously filed with the SEC on March 26, 2019 as Exhibit 4.16 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2018 and incorporated by reference herein.
(24) Previously filed with the SEC on March 23, 2020 as Exhibit 4.18 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2019 and incorporated by reference herein.

Filed herewith

† Portions of this agreement were omitted and a complete copy of this agreement has been provided separately to the Securities and Exchange Commission pursuant to the company's application requesting confidential treatment under Rule 406 under the Securities Act of 1933 as amended or Rule 24b-2 under the Securities Exchange Act of 1934, as amended, as applicable.

* Portions of this exhibit have been omitted in accordance with the rules of the Securities and Exchange Commission.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KORNIT DIGITAL LTD.

By: /s/ Alon Rozner
Name: Alon Rozner
Title: Chief Financial Officer

Date: March 30, 2022

KORNIT DIGITAL LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2021

U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Kornit Digital Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kornit Digital Ltd. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 30, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Inventory Valuation

Description of the Matter	The Company's inventories totaled $63 million as of December 31, 2021. As explained in Note 2 to the consolidated financial statements, the Company assesses the value of all inventories, including raw materials, finished goods and spare parts, in each reporting period. Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated net realizable value if those amounts are determined to be less than cost. Auditing management's estimates for excess and obsolete inventory involved subjective auditor judgment because the estimates are highly judgmental and rely on a number of factors that are affected by market and economic conditions outside the Company's control. In particular, the obsolete and excess inventory calculations are sensitive to significant assumptions, including demand for the Company's products and expected Company's sales growth.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's excess and obsolete inventory reserve process. This included management's assessment of the assumptions and data underlying the excess and obsolete inventory valuation. Our substantive audit procedures included, among others, evaluating the significant assumptions stated above and the accuracy and completeness of the underlying data management used to value excess and obsolete inventory. We compared the on-hand inventories levels to customer historical demand and sales forecasts, considering technological changes and introduction of new products. We also assessed the historical accuracy of management's estimates and performed sensitivity analyses over the significant assumptions to evaluate the changes in the obsolete and excess inventory estimates that would result from changes in the underlying assumptions.

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of EY Global

We have served as the Company's auditor since 2012.

Tel-Aviv, Israel
March 30, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Kornit Digital Ltd.

Opinion on Internal Control over Financial Reporting

We have audited Kornit Digital Ltd and subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Kornit Digital Ltd and subsidiaries (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021, and 2020, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated March 30, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of EY Global
Tel-Aviv, Israel
March 30, 2022

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 611,551	$ 125,777
Short-term bank deposits	9,168	224,804
Marketable securities	28,116	13,718
Trade receivables, net	49,797	51,566
Inventories	63,017	52,487
Other accounts receivable and prepaid expenses	13,694	9,178
Total current assets	775,343	477,530
LONG-TERM ASSETS:		
Marketable securities	149,269	71,636
Deposits and other long-term assets	856	395
Severance pay fund	357	337
Deferred taxes	9,339	5,096
Property, plant and equipment, net	45,046	29,255
Operating lease right-of-use assets	25,155	21,053
Intangible assets, net	10,063	7,221
Goodwill	25,447	16,466
Total long-term assets	265,532	151,459
Total assets	$ 1,040,875	$ 628,989

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	December 31,	
	2021	**2020**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 46,448	$ 32,016
Employees and payroll accruals	22,482	15,022
Deferred revenues and advances from customers	5,401	27,019
Operating lease liabilities	5,058	3,957
Other payables and accrued expenses	17,287	11,613
Total current liabilities	96,676	89,627
LONG TERM LIABILITIES:		
Accrued severance pay	1,543	1,214
Operating lease liabilities	21,900	18,688
Other long-term liabilities	1,203	443
Total long-term liabilities	24,646	20,345
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 0.01 par value – Authorized: 200,000,000 shares at December 31, 2021 and 2020, respectively; Issued and Outstanding: 49,619,782 shares and 45,988,613 shares at December 31, 2021 and 2020 respectively	133	121
Additional paid in capital	875,367	488,208
Accumulated other comprehensive income	571	2,733
Retained earnings	43,482	27,955
Total shareholders' equity	919,553	519,017
Total liabilities and shareholders' equity	$ 1,040,875	$ 628,989

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except per share data

	Year ended December 31,		
	2021	2020	2019
Revenues:			
Products	$ 282,637	$ 164,918	$ 156,594
Services	39,369	28,413	23,272
Total revenues	322,006	193,331	179,866
Cost of revenues:			
Products	132,730	75,040	71,057
Services	37,365	30,490	26,733
Total cost of revenues	170,095	105,530	97,790
Gross profit	151,911	87,801	82,076
Operating expenses:			
Research and development, net	43,729	31,464	22,407
Sales and marketing	58,752	36,405	33,573
General and administrative	36,637	26,661	18,498
Total operating expenses	139,118	94,530	74,478
Operating income (loss)	12,793	(6,729)	7,598
Finance income, net	2,599	3,498	3,313
Income (loss) before taxes on income (tax benefit)	15,392	(3,231)	10,911
Taxes on income (tax benefit)	(135)	1,552	744
Net income (loss)	$ 15,527	(4,783)	$ 10,167
Basic earnings (losses) per share	$ 0.33	$ (0.11)	$ 0.27
Diluted earnings (losses) per share	$ 0.32	$ (0.11)	$ 0.26

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Year ended December 31,		
	2021	**2020**	**2019**
Net income (loss)	$ 15,527	$ (4,783)	$ 10,167
Other comprehensive income (loss):			
Change in unrealized gains (losses) on marketable securities:			
Unrealized gains (losses) arising during the period, net of tax	(2,423)	1,946	1,140
Losses (gains) reclassified into net income (loss), net of tax	(32)	(465)	(251)
Net change	(2,455)	1,481	889
Change in unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) arising during the period, net oftax	415	285	130
Losses (gains) reclassified into net income (loss), net oftax	(122)	(294)	(28)
Net change	293	(9)	102
Foreign currency translation adjustment	-	418	90
Total other comprehensive income (loss), net of tax	(2,162)	1,890	1,081
Comprehensive income (loss)	$ 13,365	$ (2,893)	$ 11,248

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares					
	Number of shares outstanding	Amount	Additional paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total Shareholders' equity
Balance at January 1, 2019	35,065,200	$ 89	$ 156,714	$ (238)	$ 22,571	$ 179,136
Issuance of ordinary shares in a secondary offering, net of issuance costs in an amount of $669	4,991,000	14	130,296	-	-	130,310
Exercise of options and vesting of restricted stock units	628,140	2	5,899	-	-	5,901
Share-based compensation	-	-	6,614	-	-	6,614
Warrants to customers	-	-	5,094	-	-	5,094
Other comprehensive loss	-	-	-	1,081	-	1,081
Net income	-	-	-	-	10,167	10,167
Balance at December 31, 2019	40,684,340	105	304,617	843	32,738	338,303
Issuance of ordinary shares in a secondary offering, net of issuance costs in an amount of $739	4,689,941	14	162,531	-	-	162,545
Exercise of options and vesting of restricted stock units	614,332	2	5,658	-	-	5,660
Share-based compensation	-	-	10,036	-	-	10,036
Warrants to customers	-	-	5,366	-	-	5,366
Other comprehensive income	-	-	-	1,890	-	1,890
Net income	-	-	-	-	(4,783)	(4,783)
Balance at December 31, 2020	45,988,613	121	488,208	2,733	27,955	519,017
Issuance of ordinary shares in a secondary offering, net of issuance costs in an amount of $760	3,042,845	10	341,755	-	-	341,765
Exercise of options and vesting of restricted stock units	588,324	2	4,848	-	-	4,850
Share-based compensation	-	-	15,133	-	-	15,133
Warrants to customers	-	-	25,423	-	-	25,423
Other comprehensive income	-	-	-	(2,162)	-	(2,162)
Net income	-	-	-	-	15,527	15,527
Balance at December 31, 2021	49,619,782	$ 133	$ 875,367	$ 571	$ 43,482	$ 919,553

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income (loss)	$ 15,527	$ (4,783)	$ 10,167
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	7,096	4,711	4,441
Fair value of warrants deducted from revenues	25,423	5,366	5,094
Share based compensation	15,133	10,036	6,614
Amortization of premium and accretion of discount on marketable securities, net	1,279	395	(112)
Realized loss (gain) on sale of marketable securities	(32)	(503)	(271)
Change in operating assets and liabilities:			
Trade receivables, net	1,782	(9,529)	(18,617)
Inventory	(14,079)	(15,827)	(4,183)
Deposits and long-term assets	(110)	54	386
Other accounts receivables and prepaid expenses	(4,134)	(2,333)	(1,204)
Deferred taxes	(2,064)	2,177	(5)
Operating lease right-of-use assets and liabilities, net	211	1,265	327
Trade payables	12,865	6,864	6,032
Employees and payroll accruals	9,698	6,366	1,423
Deferred revenues and advances from customers	(21,668)	24,286	(921)
Other payables and accrued expenses	5,648	4,822	1,708
Accrued severance pay, net	309	143	26
Other long-term liabilities	760	(877)	(136)
Loss from sale and disposal of property, plant and equipment	-	139	23
Foreign currency translation gain (loss) on intercompany balances with foreign subsidiaries	-	(362)	212
Net cash provided by operating activities	53,644	32,410	11,004
Cash flows from investing activities:			
Purchase of property, plant and equipment	(14,477)	(13,489)	(5,416)
Acquisition of intangible assets and capitalization of software development costs	(130)	(121)	(1,337)
Proceeds from sale of property, plant and equipment	-	4	3
Investing in equity securities	(351)	-	-
Cash paid in connection with acquisition, net of cash acquired	(14,991)	(15,535)	(4,715)
Proceeds from (Investment in) short-term bank deposits, net	215,636	(129,804)	(90,000)
Proceeds from sale marketable securities	1,000	58,532	34,497
Proceeds from maturity of marketable securities	13,526	21,706	3,000
Investment in marketable securities	(110,458)	(35,923)	(115,529)
Net cash provided by (used in) investing activities	89,755	(114,630)	(179,497)
Cash flows from financing activities:			
Proceeds from public offering, net of issuance costs	339,760	161,981	129,710
Exercise of employee stock options	4,850	5,660	5,901
Payments related to shares withheld for taxes	(2,235)	(596)	(177)
Payment of contingent consideration	-	-	(303)
Net cash provided by financing activities	342,375	167,045	135,131
Foreign currency translation adjustments on cash and cash equivalents	-	209	(27)
Increase (decrease) in cash and cash equivalents	485,774	85,034	(33,389)
Cash and cash equivalents at the beginning of the period	125,777	40,743	74,132
Cash and cash equivalents at the end of the period	$ 611,551	$ 125,777	$ 40,743

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Year ended December 31,		
	2021	**2020**	**2019**
Supplemental disclosure of cash flow information			
Cash paid during the year for income taxes	$ 435	$ 1,028	$ 353
Non-cash investing and financing activities:			
Property, plant and equipment acquired by credit	$ 2,461	$ 1,904	$ 920
Property and equipment transferred to be used as inventory	$ -	$ 115	$ -
Inventory transferred to be used as property, plant and equipment	$ 3,572	$ 990	$ -
Lease liabilities arising from obtaining right-of-use assets	$ 5,688	$ 2,929	$ 9,640

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL

a. Kornit Digital Ltd. (the "Company") was incorporated in 2002 under the laws of the State of Israel. The Company and its subsidiaries develop, design and market digital printing solutions for the global printed textile industry. The Company's and its subsidiaries' solutions are based on their proprietary digital textile printing systems, ink and other consumables, associated software and value-added services.

b. The Company established wholly owned subsidiaries in Israel, the United States, Germany, Hong Kong, the United Kingdom and Japan. The Company's subsidiaries are engaged primarily in services, sales, and marketing, except for the Israeli subsidiary which is engaged primarily in research and development and manufacturing.

c. The Company depends on four major suppliers to supply certain components for the production of its products. If one of these suppliers fails to deliver or delays the delivery of the necessary components, the Company will be required to seek alternative sources of supply. A change in these suppliers could result in manufacturing delays, which could cause a possible loss of sales and, consequently, could adversely affect the Company's results of operations and financial position.

d. On August 10, 2021, the Company closed an asset purchase agreement with Voxel8 Inc. ("Voxel8"), an advanced additive manufacturing technology for textiles, which allows for digital fabrication of functional features with zonal control of material properties, in addition to utilizing high-performance elastomers adhering to inkjet technology. Under the agreement the Company purchased the associated assets for a total consideration of $14,991 in cash (see note 3).

e. On November 19, 2021, the Company closed a follow - on offering where 2,336,892 ordinary shares were issued and sold by the Company to the public for aggregate net proceeds of $339,760 to the Company. In addition, there was a secondary component of the offering in which 705,953 ordinary shares that were issued pursuant to exercise of warrants were sold by the Company's global customer. The Company did not receive any of the proceeds from the sale of these additional ordinary shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. Actual results could differ from those estimates.

On an ongoing basis, the Company's management evaluates estimates, including those related to intangible assets and goodwill, tax assets and liabilities, fair values of stock-based awards, inventory write-offs, warranty provision, allowance for credit loss and provision for rebates and returns. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

b. Financial statements in United States dollars:

Most of the revenues of the Company and its subsidiaries are denominated in U.S. dollars. The U.S. dollars is the primary currency of the economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollars. Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with Accounting Standards Codification ("ASC") No. 830 "Foreign Currency Matters". Changes in currency exchange rates between the Company's functional currency and the currency in which a transaction is denominated are included in the Company's results of operations as financial income, net in the period in which the currency exchange rates change.

In the years 2019 and 2020, functional currency of the Company's subsidiary in Germany was the Euro, all amounts on the balance sheets have been translated into U.S. dollars using the exchange rates in effect on the relevant balance sheets dates. All amounts in the statements of operations have been translated into U.S. dollars using the exchange rate on the respective dates on which those elements are recognized. The resulting translation adjustments were reported as a component of accumulated other comprehensive income in shareholders' equity. Management conducted a review of the functional currency of the German subsidiary and decided to change its functional currency to the U.S. dollars from the Euro effective January 1, 2021. These changes were based on an assessment by Company's management that the U.S. dollars is the primary currency of the economic environment in which the German subsidiary operates.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions, including profits from intercompany sales have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less, at acquisition.

e. Short-term bank deposits:

Short-term bank deposits are deposits with an original maturity of more than three months but less than one year from the date of acquisition.

f. Marketable securities:

The Company accounts for investments in marketable securities in accordance with ASC 320, “Investments - Debt and Equity Securities”. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determinations at each balance sheet date. The Company classifies its marketable securities as either short-term or long-term based on each instrument’s underlying contractual maturity date and the entity’s expectations of sales and redemptions in the following year.

The Company classifies all of its marketable securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in “accumulated other comprehensive income (loss)” in shareholders’ equity. Realized gains and losses on sales of marketable securities are included in financial income, net and are derived using the specific identification method for determining the cost of securities.

The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in financial income, net.

In 2020 the Company adopted ASU 2016-13, Topic 326 “Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments” which modifies the other than temporary impairment model for available for sale debt securities. The guidance requires the Company to determine whether a decline in fair value below the amortized cost basis of an available for sale debt security is due to credit related factors or noncredit related factors. A credit related impairment should be recognized as an allowance on the balance sheet with a corresponding adjustment to earnings, however, if the Company intends to sell an impaired available for sale debt security or more likely than not would be required to sell such a security before recovering its amortized cost basis, the entire impairment amount would be recognized in earnings with a corresponding adjustment to the security’s amortized cost basis.

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company did not recognize an allowance for credit losses on marketable securities as the expected losses were not material for the years ended December 31, 2021 and 2020. No impairment was recorded for the year ended December 31, 2019.

g. Inventories:

Inventories are measured at the lower of cost or net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Inventory write-off is measured as the difference between the cost of the inventory and net realizable value and is charged to the cost of sales.

Cost of inventories is determined as follows:

Raw materials and components - on the basis of weighted average cost.

Finished products - on the basis of average costs of materials, and other direct manufacturing cost.

Inventory write-offs have been provided to cover risks arising from slow-moving items, technological obsolescence and excess inventories according to revenue forecasts.

During the years ended December 31, 2021, 2020 and 2019, the Company recorded inventory write offs in a total amount of $4,909, $5,000 and $2,624, respectively.

h. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Office furniture and equipment	7 - 20
Computer and peripheral equipment	33
Machinery and equipment	7 - 33
Leasehold improvements	(*)
Building and land	(**)

(*) Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term (including the extension option held by the Company and intended to be exercised) and the expected life of the improvement.

(**) Building and land consist of land and a new ink manufacturing plant. In September 2019, the Company purchased the land which includes long-term leasehold rights, with a lease term of 98 years. As of December 31, 2021, the ink manufacturing plant is under construction. Depreciation of the manufacturing plant will begin upon completion of its construction.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Business combinations:

The Company accounts for business combinations in accordance with ASC No. 805, “Business Combinations” (“ASC No. 805”). ASC No. 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. The excess of the fair value of the purchase price over the fair values of the identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Acquisition related costs are expensed in the statement of operations in the period incurred.

j. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of a business acquired over the fair value of net assets acquired. Under ASC No. 350, “Intangibles – Goodwill and other” (“ASC No. 350”), goodwill is not amortized but is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company has elected to perform an annual impairment test of goodwill as of December 31 of each year, or more frequently if impairment indicators are present.

The Company operates in one operating segment and this segment comprises the only reporting unit. The goodwill impairment test is performed according to the following principles:

1. An initial qualitative assessment may be performed to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

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2. If the Company concludes it is more likely than not that the fair value of the reporting unit is less than its carrying amount, a quantitative fair value test is performed. An impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value is recognized.

During the years ended December 31, 2021, 2020 and 2019, no impairment of goodwill was identified.

Acquired identifiable finite-lived intangible assets are amortized on a straight-line basis or accelerated method over the estimated useful lives of the assets. The basis of amortization approximates the pattern in which the assets are utilized, over their estimated useful lives. The Company routinely reviews the remaining estimated useful lives of finite-lived intangible assets. In case the Company reduces the estimated useful life for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Impairment of long-lived assets and intangible assets subject to amortization:

Property, plant and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC No. 360, “Accounting for the Impairment or Disposal of Long-Lived Assets”, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

During the years ended December 31, 2021, 2020 and 2019, no impairment losses were recorded.

l. Revenue recognition:

The Company generates revenues from sales of systems, consumables and services. The Company generates revenues from sale of its products directly to end-users and indirectly through independent distributors, all of whom are considered end-users.

The Company recognizes revenues in accordance with ASC No. 606, “Revenue from Contracts with Customers”. As such, the Company recognizes revenue under the core principle that transfer of control to the Company’s customers should be depicted in an amount reflecting the consideration the Company expects to receive in revenue. Therefore, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when, or as, the Company satisfies a performance obligation.

Revenues from products, which consist of systems and consumables, are recognized at the point of time when control has transferred, in accordance with the agreed-upon delivery terms. Revenues from services are derived mainly from the sale of print heads, spare parts, upgrade kits, sale of service contracts and software subscriptions. The Company’s revenues from print heads, spare parts and upgrade kits revenues (collectively “Spare parts”) are recognized at the point of time when control has transferred, in accordance with the agreed-upon delivery terms. Service contracts and software subscriptions are recognized over time, on a straight-line basis, over the period of the service.

For multiple performance obligations arrangements, such as selling a system with service contract, installation and training, the Company accounts for each performance obligation separately as it is distinct. The transaction price is allocated to each distinct performance obligation on a relative standalone selling price (“SSP”) basis and revenue is recognized for each performance obligation when control has passed. In most cases, the Company can establish SSP based on the observable prices of services sold separately in comparable circumstances to similar customers and for products based on the Company’s best estimates of the price at which the Company would have sold the product regularly on a stand-alone basis. The Company reassesses the SSP on a periodic basis or when facts and circumstances change.

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company does not account for training and installation as a separate performance obligation due to its immateriality in the context of its contracts. Accordingly, revenues from training and installation are recognized upon the delivery of its systems.

The Company periodically provides customer incentive programs in the form of product discounts, volume-based rebates and warrants (see also note 10g), which are accounted for as a variable consideration that are deducted from revenue in the period in which the revenue is recognized. These reductions to revenue are made based upon reasonable and reliable estimates that are determined according to historical experience and the specific terms and conditions of the incentive.

Although, in general, the Company does not grant rights of return, there are certain instances where such rights are granted. The Company maintains a provision for returns which is estimated, based primarily on historical experience as well as management judgment, and is recorded as a reduction of revenue. Such provision amounted to $2,178 and $1,759 as of December 31, 2021 and 2020, respectively and is included in accrued expenses and other current liabilities in the consolidated balance sheets.

Contract liabilities include amounts received from customers for which revenue has not yet been recognized. Contract liabilities amounted to $5,564 and $27,156 as of December 31, 2021 and 2020, respectively and are presented under deferred revenues and advances from customers and other long-term liabilities. During the year ended December 31, 2021, the Company recognized revenues in an amount of $26,248 which have been included in the contract liabilities on January 1, 2021.

In cases where the Company’s customers trade in old systems as part of sales of new systems, the fair value of the old systems is recorded as inventory, provided that such value can be determined.

Revenue disaggregated by revenue source consists of the following:

	Year ended December 31,		
	2021	2020	2019
Systems	$ 181,445	$ 87,769	$ 91,353
Ink and consumables	101,192	77,149	65,241
Service - spare parts	21,936	17,521	16,884
Service contracts and software subscriptions	17,433	10,892	6,388
Total revenue	$ 322,006	$ 193,331	$ 179,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table presents revenue disaggregated by geography based on customer location:

	Year ended December 31,		
	2021	**2020**	**2019**
US	$ 211,294	$ 124,375	$ 100,457
EMEA	78,686	45,859	48,810
Asia Pacific	23,341	14,211	22,101
Other	8,685	8,886	8,498
Total revenue	$ 322,006	$ 193,331	$ 179,866

Sales by the Company's distributors accounted for approximately 13%,14% and 30% of 2021 and 2020 and 2019 revenues, respectively.

Remaining performance obligations represents contracted revenues that have not yet been recognized, which includes deferred revenues and non-cancelable contracts that will be invoiced and recognized as revenue in future periods. The Company elected to apply the optional exemption under paragraph 606-10-50-14(a) not to disclose the remaining performance obligations that relate to contracts with an original expected duration of one year or less for which deferred revenues have not been recorded yet.

The following table represents the remaining performance obligations as of December 31, 2021, which are expected to be satisfied and recognized in future periods:

	2022	**2023**	**2024 and thereafter**
Service contracts and software subscriptions	$ 6,542	$ 493	$ 7

m. Shipping and Handling:

Shipping and handling fees charged to the Company's customers are recognized as revenue in the period shipped and the related costs for providing these services are recorded as a cost of revenue. Revenues from shipping in the years ended December 31, 2021, 2020 and 2019 were $3,985, $3,450 and $1,639, respectively.

n. Cost of revenues:

Cost of revenues is comprised mainly of cost of systems and ink production, employees' salaries and related costs, allocated overhead expenses, import taxes, inventory write offs, royalties and shipping and handling fees.

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Warranty costs:

The Company typically provides assurance type warranty for six months on its systems including parts and labor. A provision is recorded for estimated warranty costs at the time revenues are recognized based on historical warranty costs and management's estimates. Factors that affect the Company's warranty liability include the number of systems, historical rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts thereof as necessary.

The following are the changes in the liability for product warranty from January 1, 2020 to December 31, 2021:

Balance at January 1, 2020	$ 1,614
Provision for warranties issued during the year	3,287
Reduction for payments and costs to satisfy claims	(3,251)
Balance at December 31, 2020	$ 1,650
Provision for warranties issued during the year	8,897
Reduction for payments and costs to satisfy claims	(5,935)
Balance at December 31, 2021	$ 4,612

p. Research and development expenses, net:

Research and development expenses, net of government grants, are charged to the statement of operations, as incurred, except for development expenses which are capitalized as described in note 2q.

q. Internal use software:

The Company capitalizes qualifying costs incurred during the application development stage related to software developed for internal use. These costs are capitalized based on qualifying criteria. Such costs are amortized over the software's estimated life of three years. Costs incurred to develop software applications consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software, and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the development or implementation of the software. Capitalized internal-use software costs are included in intangibles assets, net in the consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Accounting for share-based compensation:

The Company accounts for share-based compensation in accordance with ASC No. 718, “Compensation - Stock Compensation” (“ASC No. 718”) that requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the award is recognized as an expense over the requisite service periods in the Company’s consolidated statement of operations.

The Company selected the binomial option pricing model as the most appropriate fair value method for its stock options awards with the following assumptions for the years ended December 31, 2021, 2020 and 2019:

	Year ended December 31,		
	2021	**2020**	**2019**
Suboptimal exercise multiple	2.5	1.5	1.0-1.5
Risk free interest rate	0.09% -1.36%	0.1%-0.5%	1.5%-2.7%
Volatility	58.49%-42.57%	52%	47%-48%
Dividend yield	0%	0%	0%

The expected volatility is derived from the volatility of the Company’s share price based upon actual historical stock price movements. The computation of the suboptimal exercise multiple is derived from empirical studies, based on those studies, the early exercise factor of public companies is approximately 150% for managers and 100% for other employees. The interest rate for the period within the contractual life of the award is based on the U.S. Treasury Bills yield curve in effect at the time of grant. The Company currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

The fair value of each restricted stock unit (“RSU”) including performance based RSUs is the market value of a single ordinary share of the Company, as determined based on the closing price of the Company’s ordinary shares on the date immediately prior to the day of grant.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the straight-line method, over the requisite service period of each of the awards. The Company recognizes forfeitures of awards as they occur.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Derivatives and hedging:

The Company follows FASB ASC No. 815,"Derivatives and Hedging" which requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. Accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Due to the Company's global operations, it is exposed to foreign currency exchange rate fluctuations in the normal course of its business.

The Company uses derivative financial instruments, specifically foreign currency forward and option contracts, to manage exposure to foreign currency risks, by hedging a portion of the Company's forecasted payroll and related expenses denominated in New Israeli Shekels that it expects to incur within a year. The effect of exchange rate changes on foreign currency hedging contracts is expected to partially offset the effect of exchange rate changes on the underlying hedged item.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses from contracts that were not designated as hedging instruments are recognized in "financial income, net".

The Company measured the fair value of these contracts in accordance with ASC No. 820, "Fair Value Measurements and Disclosures" ("ASC No. 820"), and they were classified as level 2 of the fair value hierarchy.

1. Derivative instruments notional amounts:

The following table summarizes the notional amounts for hedged items, when transactions are designated as hedge accounting:

	December 31,	
	2021	2020
Cash flow hedge	$ 12,303	$ -

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Derivative instrument outstanding:

As of December 31, 2021 and 2020, the fair value of the Company's outstanding forward and option contracts amounted to $317 and $0, which are included within "Other accounts receivable and prepaid expenses" on the balance sheets.

3. Derivative instrument gains and losses

The Company's outstanding derivatives designated as cash flow hedging instruments and their related gains and losses, are reported in the statement of cash flows as cash flows from operating activities.

The maximum length of time over which the Company hedges its exposure to the variability in future cash flows for forecasted transactions is less than 12 months.

t. Advertising:

Advertising costs are charged to operations as incurred and were $2,691, $2,273 and $1,981 for the years ended December 31, 2021, 2020 and 2019, respectively.

u. Income taxes:

The Company accounts for income taxes and uncertain tax positions in accordance with ASC No. 740, "Income Taxes" ("ASC No. 740"). ASC No. 740 prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized. Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

ASC No. 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits on its taxes on income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Concentrations of credit risks:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, bank deposits, marketable securities, foreign exchange contracts and trade receivables.

The majority of the Company's and its subsidiaries' cash and cash equivalents, bank deposits and marketable securities are invested in major banks in Israel and the U.S. Generally, these cash equivalents may be redeemed upon demand and, therefore management believes that they bear a lower risk.

The Company attempts to limit its exposure to interest rate risk by investing in securities with maturities of less than four years; however, the Company may be unable to successfully limit its risk to interest rate fluctuations. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of its investment portfolio. Conversely, declines in interest rates could have a material favorable impact on the fair value of its investment portfolio. Increases or decreases in interest rates could have a material impact on interest earnings related to new investments during the period.

The trade receivables of the Company and its subsidiaries are mainly derived from sales to customers located in the United States, Europe and Asia Pacific. The Company performs ongoing credit evaluations of its customers. In certain circumstances, the Company may require letters of credit from its customers, other collaterals or additional guarantees. The allowance for credit loss is based on the Company's assessment of historical collection experience, customer creditworthiness, and current and future economic and market conditions. The Company regularly reviews the adequacy of the allowance for credit loss based on a combination of factors, including an assessment of the current customer's aging balance, the nature and size of the customer and the financial status of the customer. Accounts receivable deemed uncollectable are charged against the allowance for credit loss when identified. The allowance of credit loss as of December 31, 2021 was immaterial.

w. Transfers of financial assets:

ASC 860 "Transfers and Servicing", ("ASC 860"), establishes a standard for determining when a transfer of financial assets should be accounted for as a sale. The Company's arrangements are such that the underlying conditions are met for the transfer of financial assets to qualify for accounting as a sale. The transfers of financial assets are typically performed by the factoring of receivables to two financial institutions.

For the year ended December 31, 2021, the Company sold trade receivables to two financial institutions in a total net amount of $1,387. Control and risk of those trade receivables were fully transferred in accordance with ASC 860. During the year ended December 31, 2021, the Company recorded an aggregate amount of $66 as financial expenses related to its factoring arrangements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Severance pay:

The Company's employees in Israel have subscribed to Section 14 of Israel's Severance Pay Law, 5723-1963 ("Section 14"). Pursuant to Section 14, the Company's employees, covered by this section, are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made on their behalf by the Company. Payments in accordance with Section 14 release the Company from any future severance liabilities in respect of those employees. Neither severance pay liability nor severance pay fund under Section 14 for such employees is recorded on the Company's balance sheet.

With regards to employees in Israel that are not subject to Section 14, the Company's liability for severance pay is calculated pursuant to the Severance Pay Law, based on the most recent salary of the relevant employees multiplied by the number of years of employment as of the balance sheet date. These employees are entitled to one-month salary for each year of employment or a portion thereof. The Company's liability for these employees is fully provided for via monthly deposits with severance pay funds, insurance policies and an accrual. The value of these deposits is recorded as an asset with other assets on the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Severance Pay Law or labor agreements.

Severance expenses for the years ended December 31, 2021, 2020 and 2019 were $2,895, $2,250 and $1,808 respectively.

y. Fair value of financial instruments:

The Company applies ASC No. 820 Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC No. 820 establishes a hierarchy for inputs used in measuring fair value that maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The hierarchy is broken down into three levels based on the inputs as follows:

Level 1 - Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The carrying amount of cash, cash equivalents, short term bank deposits, trade receivables, other accounts receivable, trade payables and other accounts payable and accrued expenses approximates their fair value due to the short-term maturities of such instruments.

The Company measures its marketable securities and foreign currency derivative instruments at fair value. Marketable securities and foreign currency derivative instruments are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

z. Comprehensive income:

The Company accounts for comprehensive income in accordance with FASB ASC No. 220, “Comprehensive Income.” Comprehensive income generally represents all changes in shareholders’ equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of other comprehensive income relate to gains and losses on hedging derivative instruments, unrealized gains and losses on marketable securities and unrealized gain and losses from foreign currency translation adjustments.

aa. Basic and diluted earnings per share:

Basic earnings No. 260, “Earnings Per Share” is computed based on the weighted average number of ordinary shares outstanding during each period. Diluted earnings per share is computed based on the weighted average number of ordinary shares outstanding during each period, plus dilutive potential ordinary shares considered outstanding during the period, in accordance with the relevant ASC.

The total number of shares related to the outstanding options and RSU’s excluded from the calculation of diluted earnings per share due to their anti-dilutive effect was 5,005, 20,443 and 536,359 for the years ended December 31, 2021, 2020 and 2019, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

bb. New accounting pronouncement, not yet adopted

In November 2021, the FASB issued ASU 2021-10, ASC Topic 832 “Disclosures by Business Entities about Government Assistance”. That standard requires the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy: (1) Information about the nature of the transactions and the related accounting policy used to account for the transactions (2) The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item, and (3) Significant terms and conditions of the transactions, including commitments and contingencies. The standard will become effective for fiscal years beginning after December 15, 2021. The Company does not expect this ASU to have a material effect, if any, on its consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, ASC Topic 805 “Business Combinations”. This standard creates an exception to the general recognition and measurement principle for contract assets and contract liabilities from contracts with customers acquired in a business combination. Under this exception, an acquirer applies ASC 606, Revenue from Contracts with Customers, to recognize and measure contract assets and contract liabilities on the acquisition date. ASC 805 generally requires the acquirer in a business combination to recognize and measure the assets it acquires and the liabilities it assumes at fair value on the acquisition date. The standard will become effective for fiscal years beginning after December 15, 2022. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

NOTE 3:- ACQUISITIONS

a. Hirsch:

On February 7, 2019 (the “Closing Date”), the Company, through its wholly owned subsidiary Kornit Digital North America Inc., acquired the business and certain assets of Hirsch Solutions Inc., (“Hirsch”) its distributor in North America. Under the related acquisition agreement, the total consideration of $4,715 was paid at the closing date. In addition, the Company incurred acquisition-related costs in a total amount of $85. Acquisition-related costs include legal, accounting, consulting fees and other external costs directly related to the acquisition.

The main reasons for this acquisition were to improve connectivity with customers by expanding its leadership position in the digital textile market as well as providing direct access to a large number of traditional screen-printing customers.

Purchase price allocation:

Under business combination accounting principles, the total purchase price was allocated to Hirsch’s net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

The purchase price allocation for the acquisition was determined as follows:

	Fair value	Amortization period (years)
Tangible assets		
Inventory	$ 3,353	
Intangible assets:		
Customer relationships *)	890	5.9
Goodwill	471	Infinite
Total purchase price	$ 4,715	

(*) Customer relationships represent the underlying relationships and agreements with Hirsch’s installed customer base and are amortized over the useful life of the agreements using the accelerated method.

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, the best use of the acquired assets and estimates of future performance of Hirsch’s installed base. In its allocation, applying the market participant approach, the Company determined the fair value of the acquired inventory based on estimated selling price adjusted for cost of selling efforts and a reasonable profit allowance and the acquired customer relationships based on their future expected cash flows.

Pro forma results of operations related to this acquisition have not been prepared because the acquisition is not material to the Company’s consolidated statements of operations.

U.S. dollars in thousands, except share and per share data

NOTE 3:- ACQUISITIONS (Cont.)

b. Custom Gateway:

On August 7, 2020, the Company, through its wholly owned subsidiary Kornit Digital United Kingdom, acquired all the outstanding shares of Custom Gateway, a leading global provider of cloud-based software workflow solutions for both B2B and B2C business models. Under the related acquisition agreement, the total consideration was $16,884. In addition, the Company incurred acquisition-related costs in a total amount of $648. Acquisition-related costs included legal, accounting, consulting fees and other external costs related to the acquisition.

Custom Gateway offers a cloud-based platform that enables content sourcing, creation, management and display at the front end. An order management system captures orders and uses proprietary algorithms to direct them to the appropriate production site. On the production floor, orders are routed and managed to facilitate efficient on-demand production on a mass scale. The technology enables customers to realize the full efficiency, scalability and profitability benefits of digitization by seamlessly connecting the front end, whether online or storefront, to the most suitable back-end element, such as on-demand production and logistics operations.

The Company believes this acquisition will strategically accelerate its broad-scale development effort and strengthen its value proposition for brands, retailers and fulfillers in the area of digital transformation. The Company expects the combination of the Custom Gateway software workflow portfolio with its existing and future technologies to bring to the market an end-to-end solution for on-demand production.

The purchase price allocation for the acquisition has been determined as follows:

	Fair value	Amortization period (years)
Tangible assets (liabilities):		
Cash	$ 1,349	
Account receivables and other receivables	761	
Property and equipment	53	
Trade payables and other payables	(1,054)	
Deferred tax liabilities, net	(952)	
Intangible assets:		
Technology	5,116	8
Non-competition	709	3
Goodwill	10,902	Infinite
Total purchase price	$ 16,884	

Pro forma results of operations related to this acquisition have not been prepared because the acquisition is not material to the Company's consolidated statements of operations.

U.S. dollars in thousands, except share and per share data

NOTE 3:- ACQUISITIONS (Cont.)

c. Voxel8 Inc.

On August 10, 2021, the Company consummated the acquisition, pursuant to an asset purchase agreement, of certain assets of Voxel8 Inc., an advanced additive manufacturing technology for textiles, which allows for digital fabrication of functional features with zonal control of material properties, in addition to utilizing high-performance elastomers adhering to inkjet technology. Under the agreement, the Company purchased the associated assets for a total consideration of $14,991 in cash.

In addition, the Company incurred acquisition-related costs in a total amount of $212. Acquisition-related costs included legal, accounting, consulting fees and other external costs related to the acquisition. These transaction costs were included in general and administrative expenses in the consolidated statements of operations.

The main reasons for this acquisition were to strengthen the Company's ability to explore potential existing and new lucrative markets such as functional apparel and footwear, as well as to be able to offer versatility of decorative capabilities enabling the production of various functional applications on textile substrates.

The Voxel8 acquisition was accounted for as a business combination in accordance with ASC 805 "Business Combinations". Under business combination accounting principles, the total purchase price was allocated to Voxel8's net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill which is deductible for tax purposes,

The following table summarizes the purchase price allocation for Voxel8 Acquisition:

	Fair value	Amortization period (years)
Tangible assets, net	$ 1,448	
Intangible assets:		
Technology - materials	1,795	6.5
Technology - systems	1,767	8.5
License	1,000	8.5
Goodwill	8,981	Infinite
Total purchase price	$ 14,991	

Pro forma results of operations related to this acquisition have not been prepared because the acquisition is not material to the Company's consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 4:- FAIR VALUE MEASUREMENTS

The following is a summary of marketable securities held as of December 31, 2021 and 2020:

	December 31, 2021			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Matures within one year:				
Corporate debentures	$ 25,430	$ 170	$ -	$ 25,600
Government debentures	2,507	9	-	2,516
	27,937	179	-	28,116
Matures after one year through four years:				
Corporate debentures	140,364	435	(1,090)	139,709
Government debentures	9,648	11	(99)	9,560
	150,012	446	(1,189)	149,269
Total	$ 177,949	$ 625	$ (1,189)	$ 177,385

	December 31, 2020			
	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair value
Matures within one year:				
Corporate debentures	$ 13,106	$ 210	$ -	$ 13,316
Government debentures	402	-	-	402
	13,508	210	-	13,718
Matures after one year through four years:				
Corporate debentures	63,611	1,815	(3)	65,423
Government debentures	6,145	79	(11)	6,213
	69,756	1,894	(14)	71,636
Total	$ 83,264	$ 2,104	$ (14)	$ 85,354

Investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values, were as follows as of December 31, 2021 and 2020:

	December 31, 2021					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debentures	$ 114,199	$ (1,075)	$ 1,063	$ (15)	$ 115,262	$ (1,090)
Government debentures	6,524	(91)	2,253	(8)	9,047	(99)
Total	$ 120,723	$ (1,166)	$ 3,586	$ (23)	$ 124,309	$ (1,189)

	December 31, 2020					
	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debentures	$ 3,821	$ (3)	$ -	$ -	$ 3,821	$ (3)
Government debentures	3,002	(11)	-	-	3,002	(11)
Total	$ 6,823	$ (14)	$ -	$ -	$ 6,823	$ (14)

U.S. dollars in thousands, except share and per share data

NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)

The table below sets forth the Company's assets and liabilities that were measured at fair value as of December 31, 2021 and 2020 by level within the fair value hierarchy.

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities	$ -	$ 177,385	$ -	$ 177,385
Foreign currency derivative contracts	-	317	-	317
Total financial assets	$ -	$ 177,702	$ -	$ 177,702

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities	$ -	$ 85,354	$ -	$ 85,354
Total financial assets	$ -	$ 85,354	$ -	$ 85,354

NOTE 5:- INVENTORIES

	December 31,	
	2021	2020
Raw materials and components	$ 29,857	$ 18,026
Finished products (*)	33,159	34,461
	$ 63,017	$ 52,487

(*) Includes amounts of $654 and $10,628 as of December 31, 2021 and 2020, respectively, with respect to inventory delivered to customers for which revenue was not yet recognized.

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT, NET

	December 31,	
	2021	2020
Cost:		
Computer and peripheral equipment	$ 8,092	$ 4,720
Office furniture and equipment	3,268	2,233
Machinery and equipment	28,474	*20,301
Leasehold improvements	16,061	8,627
Building and land	12,744	*12,315
	68,639	48,196
Accumulated depreciation	(23,593)	(18,941)
Property, plant and equipment, net	$ 45,046	$ 29,255

* Reclassified

Depreciation expenses for the years ended December 31, 2021, 2020 and 2019 were $5,252, $3,492, and $3,611, respectively.

U.S. dollars in thousands, except share and per share data

NOTE 6:- PROPERTY, PLANT AND EQUIPMENT, NET (Cont.)

During the years ended December 31, 2021, 2020 and 2019, the Company recorded a reduction of $600, $1,621 and $868, respectively to the cost and accumulated depreciation of fully depreciated equipment that is no longer used.

NOTE 7:- INTANGIBLE ASSETS, NET

a. Intangible assets are comprised of the following:

	December 31, 2021	December 31, 2020
Original amount:		
Acquired technology	$ 10,244	$ 6,682
License	1,000	-
Customer relationships	3,504	3,504
Non-competition agreement	974	974
Software development costs	1,320	1,320
Distribution rights	380	250
	$ 17,422	$ 12,730
Accumulated amortization:		
Acquired technology	2,355	1,424
License	46	-
Customer relationships	3,268	3,071
Non-competition agreement	596	360
Software development costs	844	404
Distribution rights	250	250
	7,359	5,509
Intangible assets, net	$ 10,063	$ 7,221

Amortization expenses for the years ended December 31, 2021, 2020 and 2019 were $1,850, $1,219 and $856, respectively.

b. Amortization expenses for future the years is as shown below:

Years Ending December 31,	Amount
2022	$ 2,130
2023	1,599
2024	1,399
2025	1,246
2026	1,376
2027 and thereafter	2,313
	$ 10,063

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 8:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31, 2021	December 31, 2020
Government authorities	$ 3,221	$ 902
Warranty provision	3,640	1,419
Provision for returns	2,178	1,759
Professional services	1,411	774
Accrued expenses	6,838	6,759
	$ 17,288	$ 11,613

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Charges:

As of December 31, 2021, the Company had a line of credit with an Israeli bank for total borrowings of up to $1.1 million, all of which was undrawn as of December 31, 2021. This line of credit is unsecured and available subject to (i) the Company's maintenance of a 30% ratio of total tangible shareholders' equity to total tangible assets, and (ii) the total credit use being less than 70% of the Company's and its subsidiaries' receivables. Interest rates across this credit line varied from 0.3% to 2.3% as of December 31, 2021.

b. Purchase commitments:

As of December 31, 2021, the Company had $63,561 of purchase commitments for goods and services from vendors. These commitments are due primarily within one year.

c. Litigation:

From time to time, the Company is party to various legal proceedings, claims and litigation that arise in the normal course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

d. Royalty Commitments:

Under the Company's agreement for purchasing print heads and other products, which was amended in 2016, the Company is obligated to pay 2.5% royalties of its annual ink revenues up to maximum annual amount of $625.

Royalties expenses for each of the years ended December 31, 2021, 2020 and 2019 were $625.

e. Guarantees:

As of December 31, 2021, the Company provided five bank guarantees in a total amount of $1,907 primarily for its rented facilities.

NOTE 10:- SHAREHOLDERS' EQUITY

a. Company's shares:

1. Ordinary shares:

Any ordinary share confers equal rights to dividends and bonus shares, and to participate in the distribution of surplus assets upon liquidation in proportion to the par value of each share regardless of any premium paid thereon, all subject to the provisions of the Company's articles of association. Each ordinary share confers its holder the right to participate the general meetings of the shareholders of the Company, with one vote on any matter presented to the shareholders.

2. On June 18, 2019, the Company closed a follow- on offering in which 4,991,000 ordinary shares were issued and sold to the public. The aggregate net proceeds received by the Company from the offering were $129,710, net of underwriting discounts, commissions and offering expenses.

3. On September 16, 2020, the Company closed a follow - on offering that had a secondary component. In the offering, the Company issued and sold to the public 2,999,999 ordinary shares for aggregate net proceeds of $161,981, net of underwriting discounts, commissions and offering expenses. In addition, in the secondary component of the offering, 1,689,942 ordinary shares that were issued pursuant to the exercise of warrants were sold by the Company's global customer. The Company did not receive any of the proceeds from the sale of these additional ordinary shares.

4. On November 19, 2021, the Company closed a follow - on offering that had a secondary component. In the offering, the Company issued and sold to the public 2,336,892 ordinary shares for aggregate net proceeds of $339,760. In addition, in the secondary component of the offering, 705,953 ordinary shares that were issued pursuant to the exercise of warrants were sold by the Company's global customer. The Company did not receive any of the proceeds from the sale of these additional ordinary shares.

b. Share option and RSU's plans:

The Company's Board of Directors has approved equity incentive plans pursuant to which the Company is authorized to issue to employees, directors and officers of the Company and its subsidiaries (the "optionees") options to purchase ordinary shares of the company, at an exercise price equal to at least the fair market value of the ordinary shares at the date of grant. The terms of option grants generally provide that 25% of total options are exercisable one year after the grant or vesting start date determined for each optionee and a further 6.25% is exercisable at the end of each subsequent three-month period over the following 3 years. Options are exercisable for up to 10 years from the grant date. Options that are cancelled or forfeited before expiration become available for future grants.

U.S. dollars in thousands, except share and per share data

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

Under the company equity incentive plans, beginning in 2017, the Company grants RSU's, including performance based RSUs. The RSU's generally vest over a period of four years of employment and performance based RSU's also vest based on performance targets. RSU's that are cancelled or forfeited become available for future grants.

During December 2021, the Company's board of directors approved an increase of 1,488,107 as to the number of ordinary shares reserved for issuance under the Company's equity incentive plans. As of December 31, 2021, an aggregate of 5,587,786 ordinary shares were available for future grants under those plans.

c. A summary of the Company's share option activity and related information is as follows:

	Number of shares upon exercise	Weighted average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at beginning of year	686,456	$ 18.66	6.87	$ 48,375
Granted	5,005	125.25	-	-
Exercised	(254,308)	19.12	-	27,181
Forfeited	(23,978)	17.49	-	-
Outstanding at end of year	413,175	$ 19.58	5.79	$ 54,815
Exercisable at end of year	291,953	$ 15.46	5.16	$ 39,936

As of December 31, 2021, the Company had $1,685 of unrecognized compensation expense related to non-vested share options expected to be recognized over a weighted average period of 1.82 years.

The weighted average fair value of options granted during the years ended December 31, 2021, 2020 and 2019 was $64.93, $31.55 and $14.51 per share, respectively. The total intrinsic value of options exercised during the years ended December 31, 2021, 2020 and 2019 was $27,181, $12,698 and $6,742, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

d. A summary of the Company's RSU's activity is as follows:

	Number of RSUs
Unvested at beginning of year	834,321
Granted	274,800
Vested	(334,016)
Forfeited	(90,439)
Unvested at the end of the year	684,666

The weighted average fair value at grant date of RSU's granted for the years ended December 31, 2021, 2020 and 2019 was $115.65, $40.93 and $28.50, respectively. The total fair value of RSU's vested during the year ended December 31, 2021, was $10,608.

The weighted average fair value of shares vested (upon settlement of RSUs) during the years 2021, 2020 and 2019 was $31.63, $24.52 and $19.53, respectively

As of December 31, 2021, the Company had $39,465 of unrecognized compensation expenses related to RSU's, expected to be recognized over a weighted average period of 2.77 years.

f. The following table sets forth the total share-based compensation expense included in the consolidated statements of operations for the years ended December 31, 2021, 2020 and 2019:

	Year ended December 31,		
	2021	2020	2019
Cost of products	$ 1,355	$ 1,056	$ 632
Cost of services	1,105	771	520
Research and development, net	2,685	1,712	1,294
Sales and marketing	5,004	2,893	1,689
General and administrative	4,984	3,604	2,479
Total share-based compensation expense	$ 15,133	$ 10,036	$ 6,614

On January 10, 2017, the Company signed a master purchase agreement with Amazon Inc. under which 2,932,176 warrants to purchase ordinary shares of the Company at an exercise price of $13.04 were issued to Amazon as a customer incentive. The warrants are subject to vesting as a function of payments for purchased products and services of up to $150 million over a five years period beginning on May 1, 2016, with the shares vesting incrementally each time Amazon makes a payment totaling $5 million to the Company. On September 16, 2020 Amazon Inc. exercised 2,162,463 warrants via cashless exercise and sold all 1,689,942 shares received upon that exercise. On November 19, 2021 Amazon Inc. exercised 769,713 warrants via cashless exercise and sold all 705,701 shares received upon that exercise. As of December 31, 2021, all of the warrants under that original master purchase agreement had been exercised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

a. On September 14, 2020, the Company signed an amendment to the master purchase agreement with Amazon Inc. under which an additional 3,401,028 warrants to purchase ordinary shares of the Company at an exercise price of $59.26 were issued to Amazon as a customer incentive. The warrants are subject to vesting as a function of payments for purchased products and services of up to $400 million over a five year period beginning on January 2021, with the shares vesting incrementally each time Amazon makes a payment totaling $5 million to the Company. As of December 31, 2021, 660,773 warrants were exercisable under the amendment to the master purchase agreement.

The fair value of the warrants was measured on the grant date using the Monte Carlo simulation with assumptions of risk-free rate of 0.4%, volatility rate of 52%, dividend yield of 0% and expected term of 5.32 years.

The Company recognized a reduction to revenues of $25,423, $5,366 and $5,094 during the years ended December 31, 2021, 2020 and 2019, respectively in respect of the warrants granted to Amazon. The total unrecognized amount to be recognized as a reduction in revenues related to the warrants granted to Amazon amounted to $83,675 as of December 31, 2021.

NOTE 11:- EARNINGS (LOSSES) PER SHARE

The following table sets forth the computation of basic and diluted earnings (losses) per share:

	Year ended December 31,		
	2021	**2020**	**2019**
Numerator for basic and diluted earnings (losses) per share:			
Net income (loss)	$ 15,527	$ (4,783)	$ 10,167
Weighted average ordinary shares outstanding:			
Denominator for basic earnings (losses) per share	47,079,358	42,286,275	38,079,394
Effect of dilutive securities:			
Employee share options, RSUs, PSUs and Warrants	1,520,737	-	1,214,721
Denominator for diluted earnings (losses) per share	48,600,095	42,286,275	39,294,115
Basic earnings (losses) per share	$ 0.33	$ (0.11)	$ 0.27
Diluted earnings (losses) per share	$ 0.32	$ (0.11)	$ 0.26

U.S. dollars in thousands, except share and per share data

NOTE 12:- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss), net of taxes, for the year ended December 31, 2021:

	Unrealized Gains (losses) on marketable securities	Unrealized Gains (losses) on cash flow hedges	Foreign currency translation adjustment	Total
Beginning balance	$ 1,933	$ -	$ 800	$ 2,733
Other comprehensive income before reclassifications	(2,423)	415		(2,008)
Amounts reclassified from accumulated other comprehensive income	(32)	(122)	-	(154)
Net current period other comprehensive income	(2,455)	293	-	(2,162)
Ending Balance	$ (522)	$ 293	$ 800	$ 571

NOTE 13:- LEASES

The Company's leases include offices and warehouses for its facilities worldwide, as well as car leases, which are all classified as operating leases. Certain leases include renewal options that are subject to the Company's sole discretion. The renewal options were included in the right of use ("ROU") and liability calculation if it was reasonably certain that the Company will exercise the option.

The components of lease expense for the years ended December 31, 2021 and 2020 were as follows:

	Year ended December 31,		
	2021	2020	2019
Operating lease	$ 5,085	$ 4,544	$ 3,857
Short-term lease	264	34	131
Total lease expense	$ 5,085	$ 4,578	$ 3,988

Cash paid for amounts included in the measurement of operating lease liabilities was $5,490, $4,635 and $3,910 during the years ended December 31, 2021 , 2020 and 2019 respectively.

The Company's operating lease agreements have remaining lease terms ranging from one year to nine years, some of these agreements include allowances, for the Company to extend the leases for an additional terms, of up to five years.

As of December 31, 2021, the weighted average remaining lease term is approximately 7.7 years, and the weighted average discount rate is 2.7 percent. The discount rate was determined based on the estimated collateralized borrowing rate of the Company, adjusted to the specific lease term and location of each lease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 13:- LEASES (Cont.)

Maturities of operating lease liabilities as of December 31, 2021 were as follows:

2022	$	5,704
2023		4,446
2024		4,015
2025		3,271
2026 and after		12,353
Total operating lease payments	$	29,789
Less - imputed interest		2,831
Present value of lease liabilities	$	26,958

As of December 31, 2021 the Company has an operating lease that has not yet commenced, with a lease obligation of approximately $ 4,071 for new offices. The operating lease will commence in 2022 with a lease term of nine years, including an option for a five year extension.

NOTE 14:- TAXES ON INCOME

a. Tax rates:

Taxable income of the Company and its Israeli subsidiary is subject to Israeli corporate tax at the rate of 23% 2021, 2020 and 2019.

b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

The Company's production facilities in Israel have been granted "Beneficiary Enterprise" status under the Law. The Company and its Israeli subsidiary have been granted benefits under the "Alternative Benefit Track" under which the main benefits are a tax exemption for undistributed income and a reduced tax rate.

The Company and its Israeli subsidiary began to utilize such tax benefits in 2010. The entitlement to the above benefits was limited to the end of 2019, and was conditional upon the Company and its Israeli subsidiary fulfilling the conditions stipulated by the Law and related regulations. In the event of failure to comply with these conditions, the benefits may be partially or fully canceled and the Company or its Israeli subsidiary may be required to refund the amount of the benefits, in whole or in part, plus a consumer price index linkage adjustment and interest.

In the event of distribution of any dividends, the amount distributed which is allocated to the above mentioned tax exempt income, on a prorate basis, will be subject to the same reduced corporate tax rate that would have been applied to the Beneficiary Enterprise's income.

NOTE 14:- TAXES ON INCOME (Cont.)

In addition, tax-exempt income attributed to the Beneficiary Enterprise will subject the Company to taxes upon distribution in any manner including complete liquidation.

The Company does not intend to distribute any amounts of its undistributed tax-exempt income as a dividend. The Company and its board of directors intend to reinvest its tax-exempt income and not to distribute such income as a dividend in the foreseeable future. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Beneficiary Enterprise programs as the undistributed tax-exempt income is essentially permanently designated for reinvestment.

As of December 31, 2021, tax-exempt income of $146,398 is attributable to the Company's and its Israeli subsidiary's various Beneficiary Enterprise programs. If such tax-exempt income is distributed, it would be taxed at the reduced corporate tax rate applicable to such income, and $36,599 of additional taxes would be incurred as of December 31, 2021.

The Company's Israeli subsidiary elected to apply the Preferred Enterprise regime under the January 2011 amendment to the Law as of the 2013 tax year. The election is irrevocable. Under the Preferred Enterprise regime, a preferred income of an Enterprise located in the center of Israel is subject to the tax rate of 16%.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a Preferred Technology Enterprise and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as "Preferred Technology Income", as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technology Enterprise located in development zone A. These corporate tax rates shall apply only with respect to the portion of the Preferred Technology Income derived from R&D developed in Israel. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain "Benefitted Intangible Assets" (as defined in the Investment Law) to a related foreign company if the Benefitted Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Authority (previously known as the Israeli Office of the Chief Scientist), referred to as the Innovation Authority.

Dividends distributed by a Preferred Technology Enterprise, paid out of Preferred Technology Income, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply).

The Company and its Israeli subsidiary believe they meet the conditions for "Preferred Technological Enterprises", and are subject to a tax rate of 12% on income that qualifies as "Preferred Technology Income", as defined in the Law. The tax rate for a Preferred Technological Enterprises located in development zone A is 7.5%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 14:- TAXES ON INCOME (Cont.)

From time to time, the Israeli Government discusses reducing the benefits available to companies under the Law. The termination or substantial reduction of any of the benefits available under the Law could materially increase the Company’s tax liabilities.

Tax benefits under the Israeli Law for the Encouragement of Industry (Taxation), 1969:

Each of the Company and its Israeli subsidiary is an “Industrial Company” as defined by the Israeli Law for the Encouragement of Industry (Taxation), 1969, and, as such, is entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of other intangible property rights for tax purposes. In addition, these Israeli companies are eligible to submit consolidated tax returns, allowing the offsetting of losses between the entities.

c. Income taxes of non-Israeli subsidiaries:

The Company’s non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of formation.

Taxes were not provided for undistributed earnings of the Company’s foreign subsidiaries. The Company’s board of directors has determined that the Company does not currently intend to distribute any amounts of its undistributed earnings as a dividend. The Company intends to reinvest these earnings indefinitely in the foreign subsidiaries. Accordingly, no deferred income taxes have been provided. If these earnings were distributed into Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

The amount of undistributed earnings of foreign subsidiaries that are considered to be reinvested as of December 31, 2021 was $18,213. If these undistributed earnings are distributed, they would be taxed at the corporate tax rate applicable to such income, and $1,796 of additional taxes would be incurred as of December 31, 2021.

d. Tax assessments:

The Company and its Israeli subsidiary received final tax assessments through 2019. The Company’s U.S and German subsidiaries received final tax assessments through 2014 and 2016, respectively, and the Company’s Hong Kong, UK and Japan subsidiaries have not received a final tax assessment since inception.

U.S. dollars in thousands, except share and per share data

NOTE 14:- TAXES ON INCOME (Cont.)

e. Carryforward losses for tax purposes:

Carryforward operating tax losses of the Company and its subsidiaries total approximately $57,025 as of December 31, 2021 and may be used indefinitely.

f. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's and its subsidiaries' deferred tax liabilities and assets are as follows:

	December 31,	
	2021	**2020**
Carryforward tax losses	$ 4,426	$ 1,688
Share-based compensation	934	695
Research and development expenses	2,666	1,933
Other temporary differences	2,320	1,840
Deferred tax assets	10,346	6,156
Deferred tax liability due to intangible assets	(1,007)	(1,060)
Deferred tax assets, net	$ 9,339	$ 5,096

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. As of each reporting date, management considers new evidence, both positive and negative, that could impact management's view with regards to the future realization of deferred tax assets for each jurisdiction.

Income (loss) before income taxes is comprised as follows:

	Year ended December 31,		
	2021	**2020**	**2019**
Domestic	$ 10,334	$ (6,926)	$ 7,343
Foreign	5,058	3,695	3,568
Income (loss) before income taxes	$ 15,392	$ (3,231)	$ 10,911

U.S. dollars in thousands, except share and per share data

NOTE 14:- TAXES ON INCOME (Cont.)

g. Taxes on income (tax benefits) are comprised as follows:.

	Year ended December 31,		
	2021	2020	2019
Current taxes	$ (550)	$ 210	$ 677
Deferred taxes	415	1,342	67
	$ (135)	$ 1,552	$ 744
Domestic	$ 322	$ 1,360	$ (337)
Foreign	(457)	192	1,081
	$ (135)	$ 1,552	$ 744

	Year ended December 31,		
	2021	2020	2019
Domestic taxes:			
Current taxes	$ (1,171)	$ 16	$ (208)
Deferred taxes	1,493	1,344	(129)
	322	1,360	(337)
Foreign taxes:			
Current taxes	621	194	885
Deferred taxes	(1,078)	(2)	196
	(457)	192	1,081
Taxes on income	$ (135)	$ 1,552	$ 744

h. Uncertain tax positions:

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	December 31,	
	2021	2020
Beginning of year	$ 4,357	$ 3,039
Additions related to tax positions taken during current year	613	
Additions related to tax positions taken during prior years	-	1,318
Reduction related to settlements of tax matters	(1,286)	-
Reductions for tax positions of prior years	(2,650)	
Balance at December 31(*)	$ 1,034	$ 4,357

(*) As of December 31, 2021, and 2020 unrecognized tax benefit in an amount of $788 and $4,357, respectively, was presented as a reduction from deferred taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 14:- TAXES ON INCOME (Cont.)

The entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

Exchange rate differences are recorded within financial income, net, while interest is recorded within income tax expense.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

i. A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statement of operations is as follows:

	Year ended December 31,		
	2021	2020	2019
Income (loss) before taxes, as reported in the consolidated statements of operations	$ 15,392	$ (3,231)	$ 10,911
Theoretical tax expense (benefit) at the Israeli statutory tax rate	3,540	(741)	2,510
Tax adjustment in respect of different tax rate of foreign subsidiaries	309	(94)	151
Non-deductible expenses and other permanent differences	(1,808)	(278)	77
Stock based compensation	355	1,485	1,247
Beneficiary enterprise benefits (*)	(560)	(68)	(3,935)
Increase (decrease) in other uncertain tax positions	(2,037)	1,318	713
Other	66	(70)	(19)
Actual tax expense (benefit)	$ (135)	$ 1,552	$ 744
(*) Basic and diluted earnings per share amounts of the benefit resulting from the "Beneficiary Enterprise" status	0.01	0.00	0.10

U.S. dollars in thousands, except share and per share data

NOTE 15:- GEOGRAPHIC INFORMATION

Summary information about geographic areas:

The Company operates in one reportable segment (see note 1 for a brief description of the Company's business). Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who is the chief executive officer, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis.

The following table presents long-lived assets by geographic region as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
U.S	$ 6,433	$ 2,835
Israel	61,339	45,835
EMEA	1,787	1,142
Asia Pacific	642	496
	$ 70,201	$ 51,008

Major customers' data as a percentage of total revenues:

The following table sets forth the customers that accounted for 10% or more of the Company's total revenues in each of the years set forth below:

	Year ended December 31,		
	2021	2020	2019
Customer A	27%	11%	12%
Customer B	12%	11%	6%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 16:- SELECTED STATEMENTS OF OPERATIONS DATA

Financial income, net:

	Year ended December 31,		
	2021	**2020**	**2019**
Financial income:			
Interest on bank deposits and other	$ 2,129	$ 2,238	$ 2,535
Realized gain on sale of marketable securities, net	32	503	271
Interest on marketable securities	3,243	2,870	1,975
Amortization of premium and accretion of discount on marketable securities, net	-	-	112
	5,404	5,611	4,893
Financial expenses:			
Bank charges	(286)	(357)	(405)
Exchange rate differences, net	(1,240)	(1,361)	(1,175)
Amortization of premium and accretion of discount on marketable securities, net	(1,279)	(395)	-
	(2,805)	(2,113)	(1,580)
Total financial income, net:	$ 2,599	$ 3,498	$ 3,313

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Company's policy is to enter into transactions with related parties on terms that, on the whole, are no less favorable, than those available from unaffiliated third parties. Based on the Company's experience in the business sectors in which it operates and the terms of its transactions with unaffiliated third parties, the Company believes that all of the transactions described below met this policy at the time they occurred.

1. Fritz Companies Israel T. Ltd. ("Fritz")

Fritz is a logistics company which is owned, in part, by the Chairman of the Board since March 2018. The Company has an ongoing logistic contract with Fritz. During the years ended December 31, 2021, 2020 and 2019 logistic service fees amounted to $5,369, $4,096 and $3,762, respectively. As of December 31, 2021 and 2020, the Company had trade payables balances due to this related party in amounts of $1,178 and $1,546, respectively.

2. Accord Insurance Agency Ltd. ("Accord")

The Company maintains a business relationship with Accord Insurance Agency Ltd., or Accord, a company which is an insurance agency that is owned in part and controlled by the Company's Chairman of the Board. Accord is the Company's insurance agent for most of its insurance policies. During the years ended December 31, 2021, 2020 and 2019, the total fees paid to Accord under the policies amounted to $423, $838 and $843, respectively.

NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

3. Priority Software Ltd. ("Priority")

Priority is the Company's ERP solution provider, which is owned, in part by a few of the Company's Board members. During the years ended December 31, 2021, 2020 and 2019 maintenances fees and additional licenses acquired amounted to $221, $100 and $109, respectively. As of December 31, 2021 and 2020, the Company had trade payables balances due to this related party in amounts of $0 and $65, respectively.

4. Tritone Technologies Ltd. ("Tritone")

On September 13, 2021 the Company entered into a sublease agreement with Tritone Technologies Ltd., whose CEO is Mr. Ofer Ben Zur, a director of the Company, and one of whose shareholders is an equity fund controlled by the Chairman of the Board, for the sublease of 192 square meters in Rosh Ha'Ayin. The term of the related lease is 24 months until September 12, 2022, with an option to extend the term by additional 12 months. The rent under the sublease is $2 per month, in addition to the rent for the related lease that is covered by the sublessee. The sublease agreement is carried out on a "back-to-back" basis, as the Company pays over the rent that it receives directly to its landlord. As of December 31, 2021, and 2020, the Company had trade receivables balances due from this related party in amounts of $5 and $3 respectively.

5. Magalcom Ltd. ("Magalcom")

The Company entered into a transaction with Magalcom which is owned, in part and controlled, by the Company's Chairman of the Board, for the replacement of communication equipment in the Company's conference rooms. Total consideration to be paid to Magalcom pursuant to this transaction is approximately $650. During the year ended December 31, 2021, service fees under the transaction amounted to $777. As of December 31, 2021 and 2020, the Company had a trade payables balances due to this related party in amounts of $282 and $9, respectively.

NOTE 18:- SUBSEQUENT EVENT

In January 2022, the Company announced that it has entered into a definitive agreement to acquire Lichtenau, Germany-based Tesoma. Tesoma is recognized for its high-quality engineering and the performance of its textile curing solutions. The acquisition is expected to be completed on or before April 1, 2022, following the satisfactory completion of business transition and integration plans.

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Description of Kornit Digital Ltd. Ordinary Shares

The authorized share capital of Kornit Digital Ltd. (hereinafter, “we”, “us”, “our” or similar expressions) consists of NIS 2,000,000 divided into 200,000,000 ordinary shares, par value NIS 0.01 per share, or ordinary shares. As of February 28, 2022, 49,684,554 ordinary shares were issued and outstanding.

Registration Number and Purposes of the Company

Our registration number with the Israeli Registrar of Companies is 51-3195420. Our purpose as set forth in our articles of association, or articles, is to engage in any lawful activity.

Voting Rights

All ordinary shares have identical voting and other rights in all respects.

Transfer of Shares

Our fully paid ordinary shares are issued in registered form and may be freely transferred under our articles, unless the transfer is restricted or prohibited by another instrument, applicable law or the rules of a stock exchange on which the shares are listed for trade. The ownership or voting of our ordinary shares by non-residents of Israel is not restricted in any way by our articles or the laws of the State of Israel, except for ownership by nationals of some countries that are, or have been, in a state of war with Israel.

Election of Directors

Our ordinary shares do not have cumulative voting rights for the election of directors. As a result, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect all of our directors, subject to the special approval requirements for external directors, to the extent we are then required to elect external directors.

Under our articles, our board of directors must consist of not less than five but no more than nine directors, including, when we are required, two external directors who serve pursuant to the Israeli Companies Law, 5759-1999, or the Companies Law. Pursuant to our articles, each of our directors (other than, when applicable, external directors, for whom special election requirements apply under the Companies Law), will be appointed by a simple majority vote of holders of our voting shares, participating and voting at an annual general meeting of our shareholders. In addition, our directors (other than the external directors, when applicable) are divided into three classes that are each elected at the third annual general meeting of our shareholders, in a staggered fashion (such that one class is elected each annual general meeting), and serve on our board of directors unless they are removed by a vote of 65% of the total voting power of our shareholders at a general meeting of our shareholders or upon the occurrence of certain events, in accordance with the Companies Law and our articles. In addition, our articles allow our board of directors to fill vacancies on the board of directors or to appoint new directors up to the maximum number of directors permitted under our articles. Such directors serve for a term of office equal to the remaining period of the term of office of the directors(s) whose office(s) have been vacated or in the case of new directors, for a term of office according to the class to which such director was assigned upon appointment. We are not currently required to have external directors serving on our board of directors, based on an exemption that we have elected to be governed by under the Companies Law regulations.

Dividend and Liquidation Rights

We may declare a dividend to be paid to the holders of our ordinary shares in proportion to their respective shareholdings. Under the Companies Law, dividend distributions are determined by the board of directors and do not require the approval of the shareholders of a company unless the company’s articles of association provide otherwise. Our articles do not require shareholder approval of a dividend distribution and provide that dividend distributions may be determined by our board of directors.

Pursuant to the Companies Law, the distribution amount is limited to the greater of retained earnings or earnings generated over the previous two years, according to our then last reviewed or audited financial statements, provided that the end of the period to which the financial statements relate is not more than six months prior to the date of the distribution. If we do not meet such criteria, we may only distribute dividends with court approval. In each case, we are only permitted to distribute a dividend if our board of directors and the court, if applicable, determines that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to their shareholdings. This right, as well as the right to receive dividends, may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Exchange Controls

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

Shareholder Meetings

Under Israeli law, we are required to hold an annual general meeting of our shareholders once every calendar year that must be held no later than 15 months after the date of the previous annual general meeting. All meetings other than the annual general meeting of shareholders are referred to in our articles as special general meetings. Our board of directors may call special general meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Companies Law provides that our board of directors is required to convene a special general meeting upon the written request of (i) any two of our directors or one-quarter of the members of our board of directors or (ii) one or more shareholders holding, in the aggregate, either (a) 5% or more of our outstanding issued shares and 1% of our outstanding voting power or (b) 5% or more of our outstanding voting power.

Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting. Furthermore, the Companies Law requires that resolutions regarding the following matters must be passed at a general meeting of our shareholders:

- amendments to our articles;
- appointment or termination of our auditors;
- appointment of external directors;
- approval of certain related party transactions;
- increases or reductions of our authorized share capital;
- a merger; and
- the exercise of our board of director’s powers by a general meeting, if our board of directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

The Companies Law and our articles require that notice of any annual general meeting or special general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes, among other matters, the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, approval of the company’s general manager to serve as the chairman of its board of directors or an approval of a merger, notice must be provided at least 35 days prior to the meeting.

The Companies Law allows one or more of our shareholders holding at least 1% of the voting power of a company to request the inclusion of an additional agenda item for an upcoming shareholders meeting, assuming that it is appropriate for debate and action at a shareholders meeting. Under applicable regulations, such a shareholder request must be submitted within three or, for certain requested agenda items, seven days following our publication of notice of the meeting. If the requested agenda item includes the appointment of director(s), the requesting shareholder must comply with particular procedural and documentary requirements. If our board of directors determines that the requested agenda item is appropriate for consideration by our shareholders, we must publish an updated notice that includes such item within seven days following the deadline for submission of agenda items by our shareholders. The publication of the updated notice of the shareholders meeting does not impact the record date for the meeting. In lieu of this process, we may opt to provide pre-notice of our shareholders meeting at least 21 days prior to publishing official notice of the meeting. In that case, our 1% shareholders are given a 14-day period in which to submit proposed agenda items, after which we must publish notice of the meeting that includes any accepted shareholder proposals.

Under the Companies Law and under our articles, shareholders are not permitted to take action by way of written consent in lieu of a meeting.

Voting Rights

Quorum requirements

Pursuant to our articles, holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote before the shareholders at a general meeting. As a foreign private issuer, the quorum required for our general meetings of shareholders consists of at least two shareholders present in person, by proxy or written ballot who hold or represent between them at least 25% of the total outstanding voting rights. A meeting adjourned for lack of a quorum is generally adjourned to the same day in the following week at the same time and place or to a later time or date if so, specified in the notice of the meeting. At the reconvened meeting, any number of shareholders present in person or by proxy shall constitute a quorum, unless a meeting was called pursuant to a request by our shareholders, in which case the quorum required is one or more shareholders, present in person or by proxy and holding the number of shares required to call the meeting as described under "—Shareholder Meetings."

Vote Requirements

Our articles provide that all resolutions of our shareholders require a simple majority vote, unless otherwise required by the Companies Law or by our articles. Under the Companies Law, each of (i) the approval of an extraordinary transaction with a controlling shareholder and (ii) the terms of employment or other engagement of the controlling shareholder of the company or such controlling shareholder's relative (even if such terms are not extraordinary) require the approval of the company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting at the meeting approves the transaction, excluding abstentions; or

- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

Additionally:

(i) the approval and extension of a compensation policy and certain deviations therefrom require the approval of compensation committee, board of directors and shareholders, in that order. In addition, the shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation policy; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation policy and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights;

(ii) the terms of employment or other engagement of the chief executive officer of the company require compensation committee, board of directors and shareholders, in that order (the shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights); and

(iii) the chairman of a company's board of directors also serving as its chief executive officer requires the same approval as applies to (i) and (ii) above (substituting the personal interest in the service of the chairman as chief executive officer in place of personal interest in the compensation).

Under our articles, the alteration of the rights, privileges, preferences or obligations of any class of our shares requires a simple majority of all classes of shares voting together as a single class at a shareholder meeting (without a separate vote of the class that is affected). Our articles also require that the removal of any director from office (other than our external directors) or the amendment of the provisions of our articles relating to our staggered board requires the vote of 65% of the voting power of our shareholders. Another exception to the simple majority vote requirement is a resolution for the voluntary winding up, or an approval of a scheme of arrangement or reorganization, of the company pursuant to Section 350 of the Companies Law, which requires the approval of holders of 75% of the voting rights represented at the meeting, in person or by proxy and voting on the resolution.

Access to Corporate Records

Under the Companies Law, shareholders are provided access to: minutes of our general meetings; our shareholders register and principal shareholders register, articles of association and annual audited financial statements; and any document that we are required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. These documents are publicly available and may be found and inspected at the Israeli Registrar of Companies. In addition, shareholders may request to be provided with any document related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Companies Law. We may deny this request if we believe it has not been made in good faith or if such denial is necessary to protect our interest or protect a trade secret or patent.

Modification of Class Rights

Under our articles, the rights attached to any class of share, such as voting, liquidation and dividend rights, may be amended by adoption of a resolution by the holders of a simple majority of all classes of shares voting together as a single class at a shareholder meeting (without a separate vote of the class that is affected).

Registration Rights

Under two transaction agreements to which we are party with Amazon Corporate LLC, a subsidiary of Amazon.com, Inc., which we collectively refer to as Amazon, Amazon is entitled to certain registration rights. Under those agreements, (1) Amazon may request up to two times in any 12-month period that we file a shelf registration statement on Form F-3 or S-3 and we are required to keep the shelf registration effective for four 90-day periods, (2) if we are ineligible to file a registration statement on Form F-3 or Form S-3, Amazon may request up to four times that we file a long form registration statement to facilitate the sale of its shares, and (3) Amazon is entitled to piggyback registration rights on underwritten offerings effected by us. We are subject to customary obligations upon Amazon's request for registration, including cooperation in case of an underwritten offering.

Acquisitions under Israeli Law

Full Tender Offer.

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. A person wishing to acquire shares of a public Israeli company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the relevant class for the purchase of all of the issued and outstanding shares of that class. If the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition an Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may include in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

If a tender offer is not accepted in accordance with the requirements set forth above, the acquirer may not acquire shares from shareholders who accepted the tender offer that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class.

Special Tender Offer.

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. This requirement does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, subject to certain exceptions.

A special tender offer must be extended to all shareholders of a company, but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) the offeror acquired shares representing at least 5% of the voting power in the company and (ii) the number of shares tendered by shareholders who accept the offer exceeds the number of shares held by shareholders who object to the offer (excluding the purchaser, controlling shareholders, holders of 25% or more of the voting rights in the company or any person having a personal interest in the acceptance of the tender offer, including their relatives and companies under their control). If a special tender offer is accepted, the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger

The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, by a majority vote of each party's shareholders. In the case of the target company, approval of the merger further requires a majority vote of each class of its shares.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares represented at the meeting of shareholders that are held by parties other than the other party to the merger, or by any person (or group of persons acting in concert) who holds (or hold, as the case may be) 25% or more of the voting rights or the right to appoint 25% or more of the directors of the other party, vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders (as described above under "Vote Requirements").

If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the petition of holders of at least 25% of the voting rights of a company. For such petition to be granted, the court must find that the merger is fair and reasonable, taking into account the respective values assigned to each of the parties to the merger and the consideration offered to the shareholders of the target company.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merging entities, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated unless at least 50 days have passed from the date on which a proposal for approval of the merger is filed with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

Anti-takeover Measures under Israeli Law

The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights with respect to voting, distributions or other matters and shares having preemptive rights. No preferred shares are authorized under our articles. In the future, if we do authorize, create and issue a specific class of preferred shares, such class of shares, depending on the specific rights that may be attached to it, may have the ability to frustrate or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization and designation of a class of preferred shares will require an amendment to our articles, which requires the prior approval of the holders of a majority of the voting power attaching to our issued and outstanding shares at a general meeting. The convening of the meeting, the shareholders entitled to participate, and the majority vote required to be obtained at such a meeting will be subject to the requirements set forth in the Companies Law as described above in “Voting Rights.”

Borrowing Powers

Pursuant to the Companies Law and our articles, our board of directors may exercise all powers and take all actions that are not required under law or under our articles to be exercised or taken by our shareholders, including the power to borrow money for company purposes.

Changes in Capital

Our articles enable us to increase or reduce our share capital. Any such changes are subject to Israeli law and must be approved by a resolution duly passed by our shareholders at a general meeting by voting on such change in the capital. In addition, transactions that have the effect of reducing capital, such as the declaration and payment of dividends in the absence of sufficient retained earnings or profits, require the approval of both our board of directors and an Israeli court.

Exhibit 8.1

SUBSIDIARIES OF KORNIT DIGITAL LTD.

Name of Subsidiary	Jurisdiction of Organization	Ownership Interest
Kornit Digital Technologies Ltd.	Israel	100%
Kornit Digital North America Inc.	Delaware	100%
Kornit Digital Europe GmbH	Germany	100%
Kornit Digital Asia Pacific Limited	Hong Kong	100%
Kornit Digital UK Ltd.	England and Wales	100%
Kornit Digital Japan KK	Japan	100%
Custom Gateway Limited	England and Wales	100% owned by Kornit Digital UK Ltd.
Kornit (Shanghai) Digital Co., Ltd.	China	100% owned by Kornit Digital Asia Pacific Limited

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronen Samuel, certify that:

1. I have reviewed this annual report on Form 20-F of Kornit Digital Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 30, 2022

By: /s/ Ronen Samuel
Ronen Samuel
Chief Executive Officer
(Principal Executive Officer)

Exhibit 12.2

**CERTIFICATION PURSUANT TO
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Alon Rozner, certify that:

1. I have reviewed this annual report on Form 20-F of Kornit Digital Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 30, 2022

By: /s/ Alon Rozner
Alon Rozner
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit 13.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a-14(b)/RULE 15d-14(b) UNDER THE EXCHANGE ACT AND 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Kornit Digital Ltd. (the "**Company**") on Form 20-F for the fiscal year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), we, Ronen Samuel, as Chief Executive Officer of the Company, and Alon Rozner, as Chief Financial Officer of the Company, each certify in such respective capacity, pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 30, 2022

By: /s/ Ronen Samuel
Ronen Samuel
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Alon Rozner
Alon Rozner
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-203970) pertaining to the 2004 Share Option Plan, 2012 Share Incentive Plan, 2015 Incentive Compensation Plan, 2015 Employee Share Purchase Plan of Kornit Digital Ltd.,

(2) Registration Statements (Form S-8 No.'s 333-214015, 333-217039, 333-223794, 333-230567, 333-237346, 333-254749) pertaining to the 2015 Incentive Compensation Plan of Kornit Digital Ltd., and

(3) Registration Statement (Form F-3 No. 333-248784) of Kornit Digital Ltd.;

of our reports dated March 30, 2022, with respect to the consolidated financial statements of Kornit Digital Ltd. and the effectiveness of internal control over financial reporting of Kornit Digital Ltd. included in this Annual Report (Form 20-F) of Kornit Digital Ltd. for the year ended December 31, 2021.

Tel-Aviv, Israel
March 30, 2022

/s/ KOST FORER GABBAY & KASIERER
A Member of EY Global